BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

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SYMBOLS AND CONVENTIONS

Unless indicated otherwise, figures have been computed by the Bank of Italy.

In the following tables:

–	the phenomenon in question does not occur
....	the phenomenon occurs but its value is not known
..	the value is known but is nil or less than half the final digit shown
::	the value is not statistically significant
()	provisional; estimates are in italics

OVERVIEW

World trade expands but geopolitical conditions remain uncertain

Economic activity has strengthened in the United States, the United Kingdom and Japan, while weakening in some of the emerging economies. A modest acceleration in world trade is forecast for 2015. The price of oil, though up slightly from its mid-January minimum, is expected to remain low. Uncertainty over the situation in Greece and the conflicts in Ukraine, Libya and the Middle East is still acute, although it has not had any impact on the international financial markets to date.

The Eurosystem begins its expanded asset purchase programme ...

The Eurosystem has expanded its programme of asset purchases to include public securities. Total purchases of €60 billion a month are planned at least through September 2016, and in any case until the path of inflation in the area is consistent with the objective of price stability (an inflation rate below, but close to, 2 per cent over the medium term). The programme is designed to dispel the risks inherent in a prolonged period of low inflation; it will be carried out resolutely and implemented in full.

... with positive effects on the markets

The programme has already had a significant impact on the financial and foreign exchange markets. The area-wide average yield on ten-year government bonds has hit a new all-time low of 0.6 per cent, and the euro has depreciated by 15 per cent against the dollar since November. Inflation expectations, which had been falling steadily until January, have since stabilized and turned upwards.

The talks on macroeconomic adjustment in Greece continue

The Eurogroup has approved the Greek government's request for a further extension of the deadline for completing its macroeconomic adjustment programme, on which European support measures are conditional. However, the negotiations have been under way for more than a month, and their outcome remains highly uncertain. The Greek government has pledged to complete the reform process, to meet its obligations to creditors, and to guarantee the sustainability of the public debt. A detailed programme of the measures to be enacted should be agreed by the end of April; reaching an agreement on schedule is in the common interest.

In Italy, the signs are more favourable but are not yet consolidated

The favourable cyclical signs have strengthened in Italy, although the upturn still needs to find a firm footing. Although GDP did not grow in the fourth quarter, the national accounts show that household consumption increased, exports accelerated and capital investment, especially in machinery and transport equipment, picked up slightly. Industrial activity has been hesitant in the early part of the year, but household and business confidence has improved markedly.

Employment prospects appear to improve somewhat

Although the number of persons in work decreased marginally in the fourth quarter, reflecting the fall in construction jobs, employment stabilized in January and February; the unemployment rate has come down slightly, but mainly as a result of declining labour market participation. The most recent surveys have found that households and firms expect employment prospects to improve moderately in the next few months, possibly thanks to the social contribution relief introduced in January and the provisions of the Jobs Act, which went into effect in March.

Price dynamics remain weak

Consumer price inflation was virtually nil in the early months of 2015, owing above all to the decline in energy prices and the relative slackness of the core components. Business surveys have nevertheless found some initial positive signs in connection with less pessimistic assessments of demand.

The expanded asset purchase programme benefits the Italian financial markets ...

Under the Eurosystem's expanded asset purchase programme, the Bank of Italy will buy about €130 billion worth of Italian government securities; including the operations of the ECB, total purchases of Italian public securities will amount to around €150 billion. Conditions on Italian financial markets improved considerably right from the announcement, on 6 November, of the start of preparatory work for the programme. The yields on government securities, risk premiums on sovereign and private debt, and spreads on the credit default swaps of the major banks all fell. The rate on ten-year government bonds came down by 1.2 percentage points, from 2.5 to 1.3 per cent, between the announcement of the preparatory work and the actual commencement of the purchases, and since then it has stayed slightly below 1.3 per cent. Share prices have risen sharply, and their volatility has diminished.

... and can stimulate economic activity

On the basis of its impact on interest rates and the exchange rate, the expanded asset purchase programme could raise GDP by more than one percentage point in 2015-16. Overall, assuming the full implementation of the programme, Italian GDP growth should exceed 0.5 per cent this year and be around 1.5 per cent next year. These effects may be accompanied by others – not easily quantifiable – if a generalized rise in asset prices due to portfolio rebalancing were to provide additional incentives for consumption and investment. Another factor supporting GDP is the fall in oil prices since mid-2014, which will contribute around half a percentage point in the two years. However, a further improvement in household and business confidence remains indispensable.

Credit conditions continue to show signs of improvement

Italian banks are in the process of incorporating the results of the comprehensive assessment in their balance sheets. Surveys indicate that the terms of lending to firms have improved further but are still differentiated according to the size and economic sector of the borrower. Average lending rates have come down but remain higher than the corresponding euro-area rates. Presumably they will fall further in the next few months owing to the decline in market yields. However, the contraction in lending to firms has continued; that in lending to households has practically come to a halt. Italian banks made ample recourse to the third targeted longer-term refinancing operation, which may help foster an expansion of credit to the economy.

The Government presents its Economic and Financial Document

In 2014, despite the contraction of output, general government net borrowing was practically stable at 3.0 per cent of GDP. According to the Government's 2015 Economic and Financial Document, net borrowing will fall to 2.6 per cent in 2015 and 1.8 per cent in 2016; on a cyclically adjusted basis and net of one-off measures, net borrowing is projected to decline from 0.7 to 0.5 per cent this year and to 0.4 per cent next year, and budget balance is projected for 2017. The ratio of debt to GDP is forecast to start falling in 2016.

Support to demand must be accompanied by measures to increase potential growth

Italy's exit from the long recession requires strong measures on both the demand side and the supply side. The stimulus provided by macroeconomic policies has increased significantly in the last few quarters, laying the basis for a recovery in domestic demand as well as consolidating the performance of exports. To sustain the growth of output over the medium term and achieve a durable expansion of employment, however, it is essential to increase *potential GDP. For this, the process of reform must continue. Improving the legislative framework and the conditions for investment can help Italian firms to respond and adapt successfully to the structural changes that are under way in the world economy.*

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

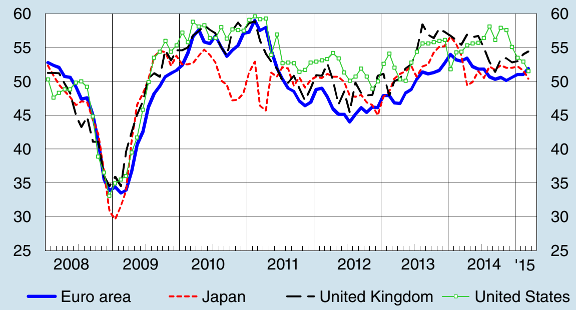
The recovery is proceeding in the advanced countries but economic activity is still weak in the emerging economies. The divergence in the monetary policy stance of the United States and that of the euro area has become more pronounced. The global outlook for 2015 remains moderately positive and the risks appear more balanced than they did at the end of 2014, thanks to reduced uncertainty about the recovery in Japan and the euro area; downside risks persist, however, linked to the geopolitical context.

In the advanced countries the short-term outlook remains positive ...

In the last quarter of 2014 output kept growing in the United States and the United Kingdom, though at a slower pace (annual rates of 2.2 and 2.0 per cent respectively), and resumed growth in Japan (1.5 per cent). Support from private consumption compensated for the weakness of investment in these three economies.

Figure 1

Manufacturing purchasing managers' indices (PMI) in the main advanced economies (1)
(monthly data)



Sources: Markit and Thomson Reuters Datastream.
(1) Diffusion indices of economic activity in the manufacturing sector derived from the assessments of purchasing managers.

In the early months of 2015 the short-term outlook was still favourable. In the United States the jobless rate fell back to pre-crisis levels, though the adverse weather conditions weighed on industrial production. In Japan, the expansion of industrial activity and of imports suggest a moderate upturn in activity. In the United Kingdom, there are increasingly positive signals from the labour market and purchasing managers' indices (Figure 1).

... while in the emerging economies output weakens

In the fourth quarter of 2014 GDP expanded by 7.3 per cent in China, short of the government's annual target of 7.5 per cent. In the first quarter of this year output slowed further, to 7.0 per cent, as a consequence of sluggish foreign demand and weak investment in construction. For 2015 the government has lowered its growth target to 7.0 per cent. In Brazil, output contracted again in the fourth quarter (-0.2 per cent) owing to the decline in foreign demand and investment, in part discouraged by monetary tightening; the macroeconomic outlook deteriorated further at the start of 2015. The corruption scandal engulfing Brazil's national oil company Petrobras is compromising the government's ability to proceed with its planned fiscal consolidation. In Russia, the economic outlook deteriorated rapidly in the fourth quarter of 2014, mainly as a result of the collapse of investment and consumer and business confidence; short-term indicators suggest that the recession continued in the early months of 2015. It appears that these developments were due above all to the drop in oil prices, while the sanctions imposed last year by the EU and the United States only played a marginal role. In India, where revised national accounts statistics increased average GDP growth in the last three years by about 2 percentage points, the economy again experienced rapid growth in the fourth quarter (7.5 per cent, against 8.2 per cent in the third); for the first quarter of 2015 the PMI index confirms the strong performance of manufacturing.

In 2015 global growth is expected to strengthen moderately

The *World Economic Outlook* published in April by the IMF confirms a gradual strengthening of global growth in 2015 and 2016. Compared with last January, the forecasts for two major emerging economies, Brazil and Russia, have been revised down significantly; among the advanced economies, the pace of growth is expected to intensify in Japan and in the euro area, while it appears to have slowed in the United States (Table 1). With respect to January, the global economic outlook has been bolstered by diminished uncertainty about the recovery of economic activity in the euro area and in Japan, due to changes in monetary policy, but is still subject to the risks stemming from structural problems in several emerging economies and the geopolitical tensions in the Middle East and North Africa.

World trade is expected to strengthen further in 2015

In the fourth quarter of 2014 the pace of international trade slowed to an annual rate of 5.2 per cent, affected by the sharp weakening of flows in emerging Asia. By contrast, trade in goods continued to expand in 2014, from 2.7 per cent in 2013 to 3.1 per cent, although it remained well below the average of 6.4 per cent recorded in the decade before the crisis. In 2015 growth is expected to accelerate moderately, above all as a result of the recovery of trade within the euro area.

Crude oil prices remain at modest levels

In the early months of 2015 oil prices fluctuated around low levels, held down by the expansion of world supply sustained by US production (Figure 2). In the United States reserves reached

Table 1

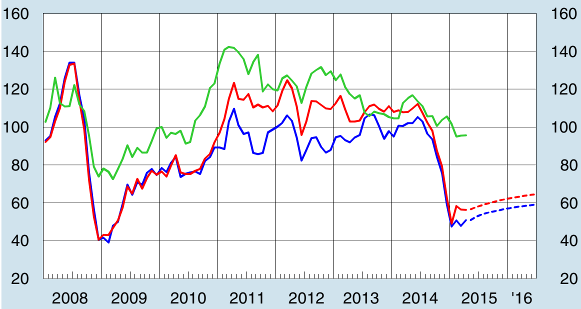
Macroeconomic projections
(percentage changes and percentage points)

	January 2015 forecasts		April 2015 forecasts		Difference Apr.2015/ Jan. 2015	
	2015	2016	2015	2016	2015	2016
GDP						
World	**3.5**	**3.7**	**3.5**	**3.8**	**0.0**	**0.1**
Advanced countries	**2.4**	**2.4**	**2.4**	**2.4**	**0.0**	**0.0**
Euro area	*1.2*	*1.4*	*1.5*	*1.6*	*0.3*	*0.2*
Japan	*0.6*	*0.8*	*1.0*	*1.2*	*0.4*	*0.4*
United Kingdom	*2.7*	*2.4*	*2.7*	*2.3*	*0.0*	*-0.1*
United States	*3.6*	*3.3*	*3.1*	*3.1*	*-0.5*	*-0.2*
Emerging countries	**4.3**	**4.7**	**4.3**	**4.7**	**0.0**	**0.0**
Brazil	*0.3*	*1.5*	*-1.0*	*1.0*	*-1.3*	*-0.5*
China	*6.8*	*6.3*	*6.8*	*6.3*	*0.0*	*0.0*
India	*6.3*	*6.5*	*7.5*	*7.5*	*1.2*	*1.0*
Russia	*-3.0*	*-1.0*	*-3.8*	*-1.1*	*-0.8*	*-0.1*
World trade	**3.8**	**5.3**	**3.7**	**4.7**	**-0.1**	**-0.6**

Source: IMF, *World Economic Outlook*.

Figure 2

Commodities prices (1)
(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly averages through March 2015; the last data refer to 10 April 2015. – (2) Goldman Sachs Commodity Index excluding energy products (January 2008=100).

record highs, exerting downward pressure on WTI prices ($50.8 a barrel). At $56.2 a barrel for Brent, the reference grade for the European market, prices reflected the deepening crisis in Libya, which led to a shortfall in OPEC production of about 400,000 barrels a day compared with the fourth quarter of 2014, only partly compensated by Saudi Arabia. Futures contracts still point to very moderate price increases in 2015. In the first quarter the prices of non-energy commodities fell again, presumably owing to the weakness of demand from the emerging economies and the appreciation of the dollar.

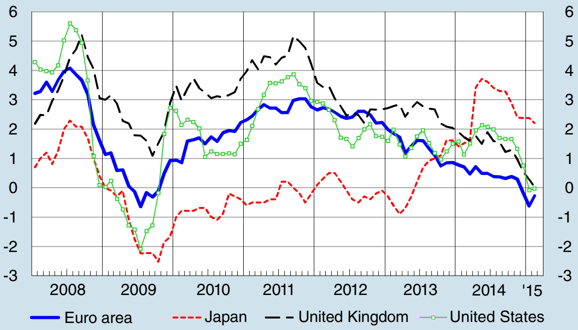
Inflation is low

World inflation remains low. In 2015 it continued to fall rapidly in the advanced countries. In February it reached zero in the United States and in the United Kingdom (from 0.8 and 0.5 per cent in December, respectively); in the euro area it was still negative (from -0.2 to -0.3 per cent) and in Japan it fell from 2.4 to 2.2 per cent, to 0.2 per cent taking account of the consumption tax increase approved in April 2014 (Figure 3). By contrast, in the main emerging economies consumer prices stabilized or kept increasing. In China and India they stayed near the levels of end-2014 (with inflation at 1.4 and 5.2 per cent respectively). In Brazil and Russia prices continued to accelerate, partly as a result of the depreciation of the currency in recent months, reaching 8.1 and 16.9 per cent respectively.

Figure 3

Consumer price inflation in the main advanced economies (1)

(monthly data; 12-month percentage changes)



Source: Thomson Reuters Datastream.
(1) For the euro area and the United Kingdom, harmonized consumer prices.

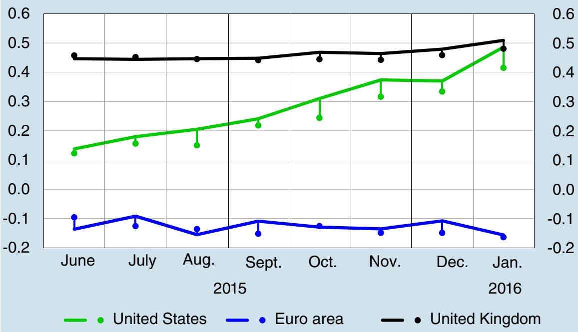
US rates are set to rise more gradually than expected

In March the Federal Reserve left the target range of 0.0-0.25 per cent for the federal funds rate unchanged and confirmed that it was unlikely to raise official rates in April; the new projections of the Federal Open Market Committee point to a more gradual normalization than expected at the end of 2014. The markets still anticipate a first rate rise in the second half of the year (Figure 4). In the United Kingdom no increases in the official rate are expected before 2016.

Figure 4

Overnight interest rates implicit in derivative contracts (1)

(monthly data; percentage points)



Sources: Based on Thomson Reuters Datastream data.
(1) Expected interest rate implicit in overnight indexed swap (OIS) prices. The solid line indicates the interest rates forecast on 16 January 2015, the dots show those forecast on 10 April 2015.

In the emerging countries monetary policies are more accommodative

In the main emerging economies central banks have relaxed monetary conditions since last January. China cut its required reserve ratio and its official rates on lending and bank deposits by 25 basis points; in India the reference rate fell by 75 basis points. The Bank of Russia, which last December embarked on an unprecedented monetary tightening in an attempt to stem the devaluation of the rouble, began cutting rates too, lowering the official discount rate by 100 basis points in March, to 14 per cent. Only Brazil maintained its policy of monetary restriction, raising rates to 12.75 per cent from 11.75 per cent in mid-January, to combat the depreciation of the real and to bring inflation back within the reference range.

1.2 THE EURO AREA

There are growing signs of cyclical improvement in the euro area, although the outlook is still subject to uncertainty. Consumer price inflation has continued to be slightly negative. The Eurosystem has begun its public sector securities purchase programme, whose size has exceeded market expectations. The impact on the financial markets and on the exchange rate has been very substantial. The lowering of inflation expectations has been halted.

GDP picks up somewhat in the fourth quarter ...

Area-wide GDP growth picked up slightly in the fourth quarter of 2014, to 0.3 per cent on a quarterly basis (Figure 5), led by household and business spending and foreign trade. Among the main area economies, activity held stable in Italy and barely expanded in France; the stronger growth in Germany (0.7 per cent) involved all the main demand components except inventories.

... and continues to gain in early 2015

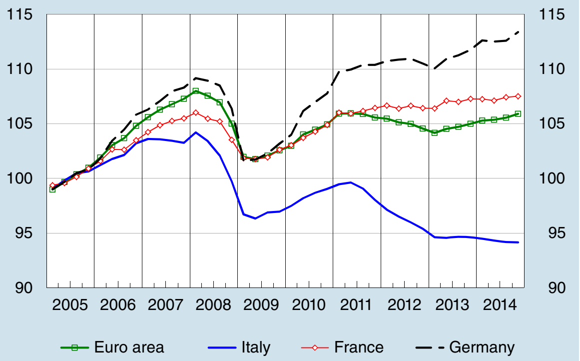
The data available suggest that economic activity accelerated moderately again in the first quarter. In March the €-coin indicator of the fundamental dynamics of GDP in the area increased slightly (Figure 6). Business surveys corroborate the favourable outlook: in March the area-wide PMI remained above the threshold consistent with economic expansion. The industrial recovery proceeded in the early months of the year. Industrial output gained half a percentage point in January and February with respect to the previous period, as it had in November and December.

Inflation is negative ...

Preliminary estimates indicate that consumer price inflation was still negative in March, albeit less so than in February, at a twelve-month rate of -0.1 per cent (Figure 7). The slackness of price dynamics continues to reflect the fall in energy prices (down by 5.8 per cent), but also persistently moderate core inflation (0.6 per cent net of food and energy products). In February a third of the items in the basket registered twelve-month price declines; among the core items, the prices of nearly half of the goods and 15 per cent of the services in the basket decreased. Inflationary pressures remain weak; during the first quarter producer prices declined again, by 2.8 per cent in February on a twelve-month basis, owing mainly to the drop in the energy component. Producer prices of non-food final consumption goods remain slack, with a decrease of 0.1 per cent.

Figure 5

GDP of the euro area and the main area countries (1)
(quarterly data; indices, 2005=100)



Sources: Based on national statistics.
(1) Chain-linked volumes.

Figure 6

€-coin coincident cyclical indicator and euro-area GDP (1)
(percentage changes)

Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July 2009. Details on the indicator are available at this address. For GDP, quarterly data; change on previous quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter net of the most erratic components.

... and is expected to remain very low for the rest of the year

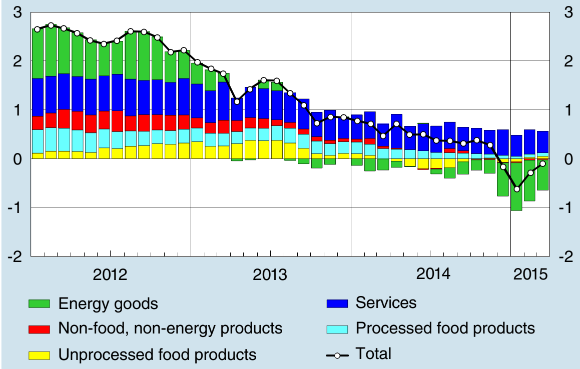
Opinion surveys and polls of professional forecasters point to very low inflation throughout 2015. In March households' expectations for consumer prices and firms' intentions as regards their list prices were again below the threshold compatible with a rise in prices. The forecasters interviewed by Consensus Economics that month predicted zero inflation for the year.

The dispersion of bank lending rates diminishes further

Lending to firms in the euro area returned to growth, registering an increase of 1.9 per cent in the three months ending in February, compared with a contraction of 0.8 per cent in November (on an annual and seasonally adjusted basis and net of the accounting effect of securitizations). The expansion of credit to households remained modest (1.3 per cent). The cost of bank credit decreased again (Figure 8), especially for medium- and long-term loans. The dispersion of lending rates among euro-area countries decreased again, in line with the lesser fragmentation of the financial markets.

Figure 7

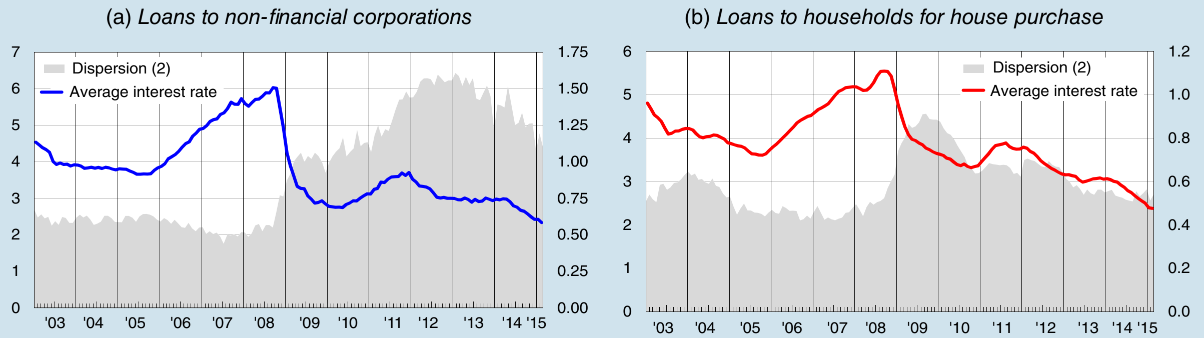
Inflation in the euro area and contributions of the components (1)
(monthly data; 12-month percentage changes and percentage points)



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices; for March 2015, preliminary estimates.

Figure 8

Composite indicator of the cost of borrowing in the euro area (1)
(per cent)



Source: ECB.
(1) Average of interest rates on new short- and medium-term loans weighted using the 24-month moving average of new loan disbursements. For non-financial corporations, includes overdrafts. – (2) Standard deviation of the average interest rates for 13 euro-area countries. Right-hand scale.

The ECB Governing Council expands the securities purchase programme ...

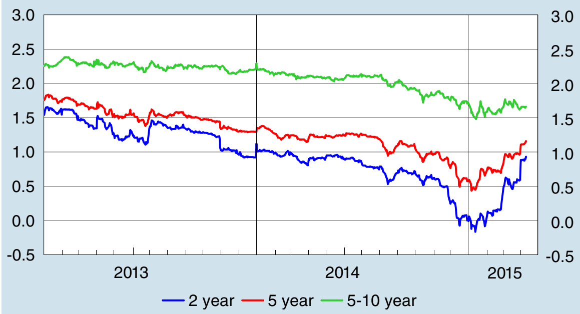
The ECB Governing Council judged the economic stimulus generated by the monetary policy measures taken in June and September last year to be insufficient. In order to achieve an adequate expansion of the Eurosystem's balance sheet and to counter the risks of an excessively long period of low inflation, on 22 January the Council decided to extend the programme of asset purchases for monetary policy purposes announced last September, which involved asset-backed securities and covered bonds, to include securities issued by euro-area central governments, certain public agencies in the euro area, and some European institutions. The purchases will amount to €60 billion a month and will continue at least through September 2016 and in any case until the path of inflation in the area is consistent with the monetary policy objective (see the box 'The macroeconomic impact for Italy of the Eurosystem's Asset Purchase Programme'). The purchases of public securities, which began on 9 March, are conducted on the secondary market; by 3 April they amounted to €53 billion in public securities, €65 billion in covered bonds and €5 billion in asset-backed securities.

... with significant effects on the markets ...

The extension of the purchase programme has already had substantial effects on the financial and foreign exchange markets. Between 5 November, the day before the announcement of the start of preparatory work on the measure, and 10 April, the yields on ten-year Italian government bonds fell by 1.2 percentage points, and the euro depreciated by 9.8 per cent in nominal effective terms and by 15.3 per cent against the dollar. Following the announcement of the programme's expansion, the decline in medium-term inflation expectations came to a halt and there was a reversal of the trend; five-year forward five years ahead expectations increased by about 0.2 percentage points from the lows registered in mid-January, reaching 1.7 per cent (Figure 9).

Figure 9

Inflation expectations implied by inflation swaps (1)
(daily data; per cent)



Source: Bloomberg.
(1) Inflation rates implied by 2-year, 5-year and 5-10-year inflation swaps 5 years ahead.

... and macroeconomic projections

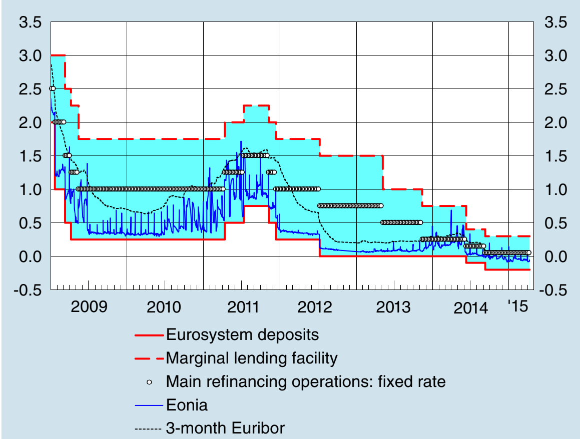
The projections of the ECB staff released in March, which assume full implementation of the securities purchase programme and factor in its impact on the economy, revised area-wide GDP growth up by 0.5 percentage points in 2015 and 0.4 points in 2016, to 1.5 and 1.9 per cent respectively. Inflation was revised downwards by 0.7 points for 2015 (to 0.0 per cent), owing mainly to oil price trends, and up by 0.2 points for 2016, to 1.5 per cent, owing in part to the expansion of the securities purchase programme.

Targeted refinancing operations continue

In January the Governing Council also decided to eliminate the 10 basis point spread between the interest rate on the remaining six targeted longer-term refinancing operations (TLTROs) and the rate on the main refinancing operations. On 25 March the third targeted operation was settled, in which the amount of funds available to each bank was related to the flow of lending to households and firms between May 2014 and January 2015 (see the box 'The monetary policy measures adopted in June 2014', *Economic Bulletin*, No. 3, 2014); 143 euro-area banks took part, obtaining €98 billion; €36 billion was allotted to Bank of Italy counterparties. Money market rates stayed near zero (Figure 10).

Figure 10

Official interest rates and money market rates in the euro area
(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

Talks on a review of the support measures for Greece continue

On 20 February the Eurogroup announced that it supported the Greek government's request for an extension to 30 June of the deadline for completing its macroeconomic adjustment programme, on which the last tranche of aid from the European Financial Stability Facility (EFSF) and the transfer of the Eurosystem's profits on Greek securities in 2014 under the Securities Markets Programme are conditional. However, the negotiations over the extension have been under way for more than a month, and the outcome remains highly uncertain. The Greek government has pledged to carry out structural reforms during this period to reinforce growth potential and social equity, ensure the stability of the financial system, combat corruption and tax evasion, and improve the efficiency of the public sector. It has also declared its intention to meet its obligations to creditors and guarantee the sustainability of the public debt. The detailed reform plan should be agreed by the end of April. The Eurogroup has further ordered that the funds available at the Hellenic Financial Stabilty Fund as bonds of the EFSF be transferred to the latter. Until the programme is completed these resources continue to be available to Greece for capital injections or bank resolutions at the request of the ECB or the Single Supervisory Mechanism.

1.3 WORLD FINANCIAL MARKETS

World financial markets reacted well to the new quantitative easing plan of the ECB and the resulting increase in global liquidity. Volatility diminished and stock prices rose. Yields on government securities continued to fall in the euro area as a whole; sovereign risk premiums increased only in Greece. The depreciation of the euro gained pace, bringing the nominal effective exchange rate down to the lowest level since 2002.

Long-term interest rates fall in the euro area

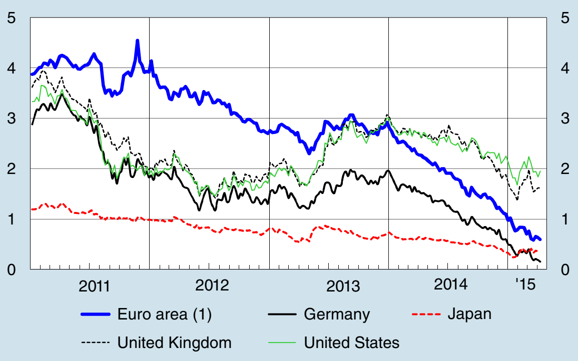
Yields on ten-year government securities again fell considerably, reaching an unprecedented low of 0.6 per cent on average in the euro area in response to the launch of the ECB's programme of public and private sector securities purchases, which exceeded operators' expectations in terms of both amount and duration (see the box 'The macroeconomic impact for Italy of the Eurosystem's Asset Purchase Programme'). In the other main advanced economies long-term interest rates instead adjusted slightly upwards from the low point recorded at the end of January, and in mid-April stood at 1.8 per cent in the United States, 1.6 per cent in the United Kingdom and 0.4 per cent in Japan (Figure 11).

Sovereign spreads increase in Greece and hold stable or decline in the rest of the euro area

The positive effect of the ECB's decision on sovereign credit risk premiums was partly dampened by the marked uncertainty that the ongoing negotiations to review Greece's financial aid programmes have generated. In the early months of 2015 yield spreads between ten-year government securities and the corresponding German Bund narrowed in Portugal, Italy, Ireland and Belgium – by 69, 24, 16 and 3 basis points respectively – but were virtually unchanged in Spain and France. In Greece the ten-year spread instead increased by 188 basis points (Figure 12).

Figure 11

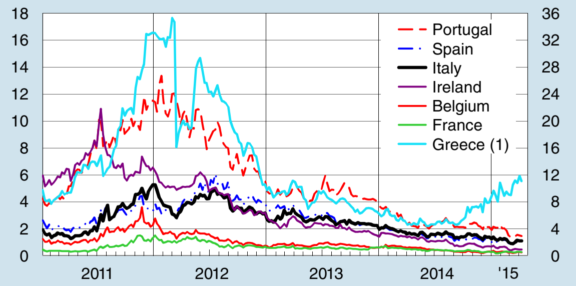
Yields on 10-year government bonds
(end-of-week data; per cent)



Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government securities of the euro-area countries excluding Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia, Slovenia, Lithuania and Latvia.

Figure 12

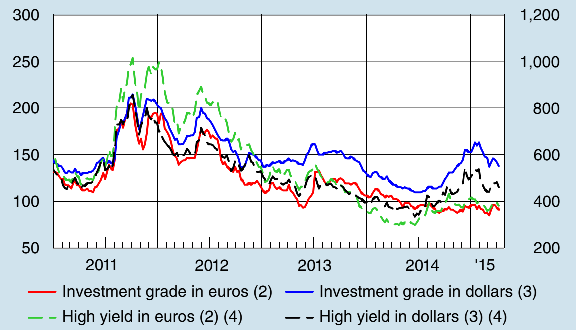
Yield spreads between 10-year government bonds and the corresponding German Bund
(end-of-week data; percentage points)



Sources: Based on data from Bloomberg and Thomson Reuters Datastream.
(1) Right-hand scale.

Figure 13

Yield spreads between bonds of non-financial corporations and government securities in euros and dollars (1)
(end-of-week data; basis points)



Source: Merrill Lynch.
(1) Investment grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High yield bonds are those issued by corporations rated below those grades. – (2) Fixed rate bonds with a residual maturity of not less than 1 year, issued in the Euromarket; yield spreads are calculated with respect to French and German government securities. – (3) Fixed rate bonds denominated in dollars with a residual maturity of not less than 1 year issued on the US domestic market; yield spreads are calculated with respect to US Treasury securities. – (4) Right-hand scale.

Private debt risk premiums remain low

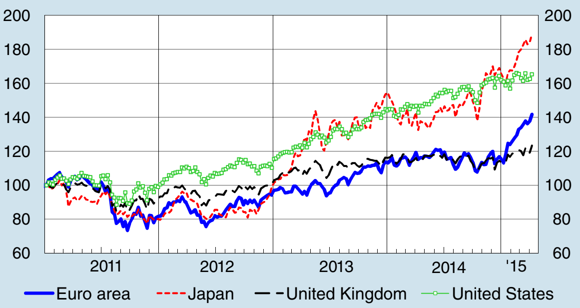
From the beginning of the year yield spreads with respect to government securities narrowed on dollar-denominated investment grade corporate bonds but remained stable on those denominated in euros (Figure 13). Risk premiums fell sharply on high yield bonds denominated in dollars and in euros. Banks' credit risk premiums, gauged by credit default swaps, declined in both the euro area and the United States.

Share prices rise and volatility diminishes in the advanced economies

Share prices rose almost everywhere (Figure 14) while volatility diminished (Figure 15). In the United States and the United Kingdom prices recouped the losses recorded at the beginning of the year; in the euro area and Japan they rose rapidly, drawing support from more expansionary monetary policies. In Japan the stock market also benefited from increased purchases by the

Figure 14

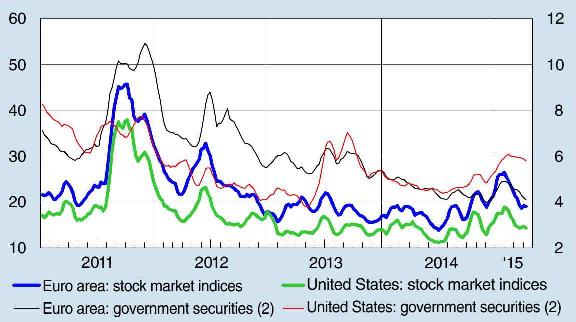
Stock market indices (1)
(end-of-week data;
1st week of January 2011=100)



Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom, and Standard & Poor's 500 for the United States.

Figure 15

Implied volatility of stock market indices and government securities prices (1)
(end-of-week data; percentage points)



Source: Based on data from Thomson Reuters Datastream.
(1) Moving average over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury Notes for the United States. – (2) Right-hand scale.

central bank and some institutional investors, who had recently revised their portfolio strategies, switching to higher yield assets and away from low-earning public securities.

Financial conditions improve in the emerging countries too

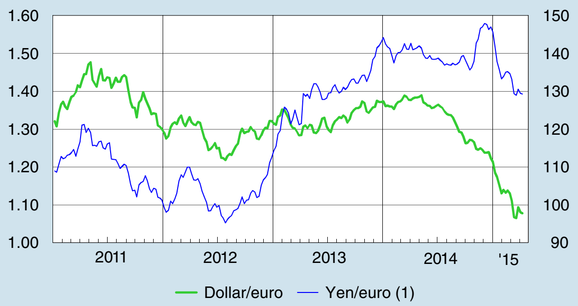
Conditions on the financial markets of the emerging economies became less strained. Outflows of capital halted and portfolio investment resumed to some extent in the bond market. Share indices rose in many countries, especially India, and sovereign spreads diminished everywhere except in Brazil. They fell in Russia too, thanks to the upturn in oil prices and despite the downgrade of its sovereign rating at the beginning of 2015. The currencies of the emerging economies, which had been falling as a whole against the dollar, ceased to depreciate in the second half of March after the Federal Reserve announced a more gradual raising of the reference rate; at the same time, the depreciation of the Brazilian real, which had been falling faster than the other currencies partly owing to the Petrobras scandal, eased, resulting in a loss of 16 per cent since the beginning of the year. By contrast, from early February the rouble regained about half of the loss recorded between October and January (-60 per cent).

The euro depreciates to its 2002 low

The euro depreciated more sharply in the early months of 2015 and in mid-April the nominal effective exchange rate stood at its lowest level for 13 years. The single currency continued to weaken against the dollar, as it had been doing for almost a year, and rapidly absorbed the appreciation against the yen recorded at the end of 2014, after Japan stepped up its programme of quantitative easing. Since the beginning of the year the euro has lost around 13 per cent against both currencies (Figure 16).

Figure 16

Bilateral exchange rates
(average weekly data)



Source: ECB.
(1) Right-hand scale.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

More favourable signs have emerged regarding cyclical developments in Italy. In the fourth quarter of 2014 GDP ceased contracting as exports accelerated, consumption continued to expand and investment picked up slightly. In the early months of this year household confidence and business sentiment improved markedly. Nevertheless, the revival of industrial activity has yet to gain traction.

GDP stabilizes and investment returns to growth at the end of 2014 ...

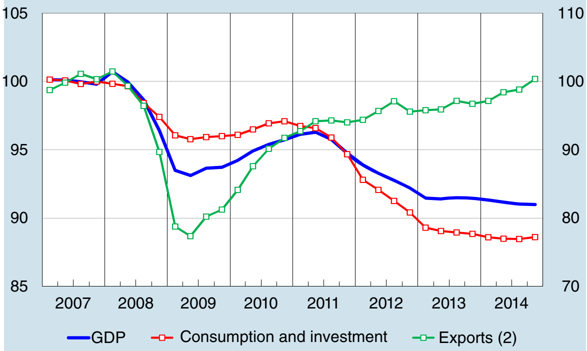
GDP remained stable in the fourth quarter of 2014 with respect to the third (Figure 17). After declining virtually without a break since the start of 2011, capital spending showed a modest gain of 0.2 per cent (Table 2). Investment was buoyed in particular by spending on transport equipment, while investment in construction fell again. Household consumption continued to expand at a moderate pace (0.1 per cent). Foreign trade provided the largest boost to GDP (0.4 percentage points), with exports accelerating sharply and outpacing imports. The change in stocks subtracted 0.6 percentage points from GDP growth. Value added increased in services, while it declined in construction, in industry excluding construction and in agriculture.

... although the prospects are still uncertain

After staging a slight recovery at the end of 2014, by our estimate industrial production continued to grow modestly in the first few months of this year. On the basis of these data, GDP grew slightly in the first quarter. The Bank of Italy's Ita-coin indicator, which provides an estimate of the quarterly change in Italy's GDP adjusted for short-term fluctuations, improved in March, but it continues to signal a residual weakness in the underlying trend of economic activity (see the

Figure 17

GDP and the main components of demand (1)
(quarterly data; indices, 2007=100)



Source: Based on Istat data.
(1) Chain-linked volumes adjusted for seasonal and calendar effects. – (2) Right-hand scale.

Table 2

GDP and its main components (1)
(percentage changes on previous period)

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 (2)
GDP	-0.1	-0.2	-0.1	..	-0.4
Total imports	-0.1	1.1	0.7	0.3	1.8
National demand (3)	-0.3	-0.3	-0.1	-0.4	-0.7
National consumption	..	..	0.2	0.2	..
household spending (4)	*0.1*	*0.2*	*0.2*	*0.1*	*0.3*
other spending (5)	*-0.4*	*-0.5*	*0.2*	*0.4*	*-0.9*
Gross fixed investment	-1.5	-0.7	-1.0	0.2	-3.3
construction	*-1.5*	*-1.2*	*-0.9*	*-0.6*	*-4.9*
other investment goods	*-1.5*	*-0.2*	*-1.0*	*1.0*	*-1.6*
Change in stocks (6) (7)	..	-0.2	..	-0.6	-0.1
Total exports	0.4	1.3	0.4	1.6	2.7
Net exports (7)	0.2	0.1	-0.1	0.4	0.3

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes the change in stocks and valuables. – (4) Includes non-profit institutions serving households. – (5) General government expenditure. – (6) Includes valuables. – (7) Contributions to GDP growth on previous period, in percentage points.

box "Ita-coin: a coincident indicator of the Italian economic cycle"). More positive signs come from opinion surveys, which paint a picture of greater confidence among firms and households, especially going forward. A stimulus to growth can come from the expansion of the securities purchase programme recently approved by the Governing Council of the ECB (see the box "The macroeconomic impact for Italy of the Eurosystem's asset purchase programme"). Activity should also benefit from the low price of oil: the reduction in expenditure on energy will free resources for business investment and household consumption and could raise GDP by around half a percentage point in two years (see Economic Bulletin, No. 1, 2015, Section 2.10).

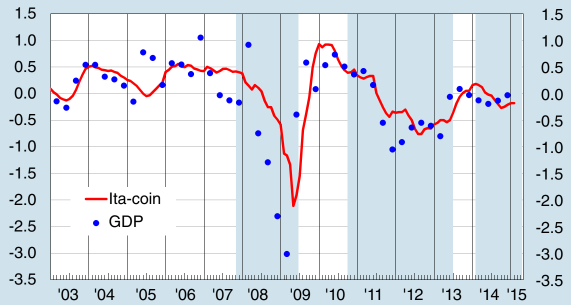
ITA-COIN: A COINCIDENT INDICATOR OF THE ITALIAN ECONOMIC CYCLE

Under European Union agreements, quarterly GDP estimates are usually released within 45 days of the end of the quarter to which they refer; revisions to them at the time of subsequent data releases, though now smaller than in the past, remain significant.

To permit an assessment of the state of the economic cycle that is timely and less seriously affected by short-term volatility, the Bank of Italy has now begun to calculate a coincident indicator for the Italian economy, designated Ita-coin, [1] alongside the well-established €-coin [2] indicator for the euro area.

Ita-coin gives a monthly estimate of the trend in economic activity, exploiting information drawn from a vast array of Italian economic variables, both quantitative (industrial production, inflation, retail sales, foreign trade flows, share indices) and qualitative (business and household confidence, PMI indicators). In addition, the index makes use of data for Germany, Italy's main trading partner. The hypothesis underlying the model is that the correlation among these indicators is driven by a limited number of common shocks that accordingly explain cyclical developments. [3]

Cyclical phases of the Italian economy (1)
(percentage changes)



(1) The Ita-coin coincident indicator and quarterly GDP growth rates, plotted against the dating of the Italian economic cycle (shaded areas are contractions. Through 2009 the dating is that of Istat; afterwards, it is obtained using the Bry-Boschan algorithm).

Ita-coin's monthly estimates are affected to only a small extent by subsequent data revisions and tend to be stable even in times of sharply fluctuating economic activity. The indicator has shown good ability to track the cyclical phases established by official dating (see the figure).

From the outbreak of the sovereign debt crisis until mid-2013, Ita-coin displayed a decidedly negative trend, in line with the economic recession. In subsequent periods, when the decline in activity moderated, the indicator turned positive, with a relapse starting in the middle of 2014. In recent months Ita-coin has improved gradually but remains negative, thus reflecting both the advances and the difficulties that have marked the start of the economic recovery.

[1] V. Aprigliano and L. Bencivelli, "Ita-coin: a new coincident indicator for the Italian economy", Banca d'Italia Working Papers, No. 935, 2013.
[2] F. Altissimo et al., "New Eurocoin: Tracking Economic Growth in Real Time", *The Review of Economics and Statistics*, 92, 4, 2010, pp. 1024-1034; published also in Banca d'Italia Working Papers, No. 631, 2007.
[3] M. Forni et al., "The Generalized Dynamic Factor Model: One-Sided Estimation and Forecasting", *Journal of the American Statistical Association*, 100, 471, 2005, pp. 830-840.

Consumer price inflation is practically nil

Consumer price inflation, gauged by the twelve-month change in the harmonized index of consumer prices, was virtually nil in February and March. The modest rate of inflation continues to reflect the sharp decline in energy prices together with the persistent moderation of the core components; excluding energy and food products, consumer price inflation in March stood at an all-time low of 0.4 per cent (See Section 2.6).

THE MACROECONOMIC IMPACT FOR ITALY OF THE EUROSYSTEM'S ASSET PURCHASE PROGRAMME

At its meeting on 22 January 2015 the ECB Governing Council announced it was expanding the Eurosystem's asset purchase programme, previously limited to asset-backed securities (ABS) and covered bonds, to include bonds issued by the public sector (Public Sector Purchase Programme). From 9 March on, and at least until September 2016, the ECB plans to make €60 billion of purchases a month, for a total of €1,140 billion, equal to about 50 per cent of the Eurosystem's balance sheet assets at the time of the decision and to about 11 per cent of euro-area GDP in 2014.[1] As part of the programme the Bank of Italy will purchase just over €130 billion of Italian government securities, for a total of about €150 billion (9.1 per cent of national GDP) including the ECB's purchases. The duration of the Expanded Asset Purchase Programme (APP) may be extended until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its objective of achieving inflation rates below but close to 2 per cent over the medium term.[2]

The public and private securities purchase programme will affect economic activity and inflation through various channels: a) it will hold down the yields on public sector bonds, which are taken as benchmarks for the interest rates on a broad range of instruments used to fund the private sector;[3] b) the liquidity obtained in exchange for the securities transferred to the Eurosystem will lead economic operators to invest in financial assets offering higher yields that are not the object of purchases under the programme, thus transmitting monetary policy to a broader range of funding instruments; c) the reduction in the yields on the securities purchased will be reflected in the cost of bank funding, thereby improving credit supply conditions for households and firms; d) the reduction in the yields on euro-denominated instruments will foster, other things being equal, a depreciation of the euro that will not only increase imported inflation and inflation expectations but also boost exports; e) the revaluation of financial assets will strengthen the private sector's balance sheet situation and increase its spending capacity; and, finally, f) the magnitude and the composition of the programme will signal that the Eurosystem is determined to achieve the objective of price stability and thus help to support the public's inflation expectations and confidence.

The importance of the transmission channels in the euro area and in Italy compared with that observed in other countries in the past could be affected by the predominant role of the banking system in financing the economy. The strengthening of banks' balance sheets and the measures introduced in 2014 to improve the monetary policy transmission mechanism by supporting the provision of credit to the real economy could enhance the effectiveness of the APP via the bank lending channel.[4]

[1] As a comparison, the Federal Reserve, the Bank of England and the Bank of Japan expanded their balance sheets by, respectively, 22, 21 and 32 per cent of 2014 GDP following their own asset purchase programmes.
[2] Details of how the programme works can be found at https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html.
[3] This effect increases the more the lowering of the yield on government securities is reflected in a lessening of sovereign spreads. For a brief description of the transmission of shocks from sovereign spreads to bank deposit rates, see the box 'The impact of sovereign risk on banks' funding', *Financial Stability Report*, No. 2, 2011.
[4] At the June 2014 meeting the ECB Governing Council announced the launch of targeted longer-term refinancing operations and at the September meeting the launch of the third Covered Bond Purchase Programme (CBPP3) and the Asset-Backed Securities Purchase Programme (involving securities issued following the securitization of bank loans to households and firms) in order to boost the flow of credit to the economy and stimulate growth, including via an increase in the size of the Eurosystem's balance sheet.

The programme produced significant effects on the financial and foreign exchange markets as early as the Governing Council's meeting of 6 November (see Section 1.2) at which it was announced that the ABS and covered bond purchase programmes would be extended if necessary and that the Eurosystem would immediately begin preparatory work.

The programme's impact on the Italian economy can be assessed using the Bank of Italy's econometric model.[5] It depends on the assumptions regarding the reaction of the financial markets. In a scenario that is consistent with what has been observed during similar episodes in other countries, it can be assumed that a) the yields on government securities will fall by about 85 basis points, encouraging a portfolio shift towards instruments offering higher yields; b) bank lending rates will fall by 35 basis points for households and by 20 basis points for firms, helping to foster loan demand;[6] c) the euro will depreciate by 11.4 per cent against the dollar (6.5 per cent on a trade-weighted basis for Italy, taking account of trade with the rest of the euro area and with other countries); and d) potential export demand will increase by almost 0.5 per cent as a result of increased economic activity in the other euro-area countries.

Assumptions regarding interest rates on public securities and the exchange rate are broadly in line with the changes observed on the financial markets (see the table). Between the announcement of preparatory work for the launch of the extended programme and the first purchases, the yields on ten-year BTPs fell by about 110 basis points and the euro depreciated by 8 per cent. Part of the effects occurred after the details of the programme, which was broader than markets expected, were announced on 22 January. After purchases began, yields held broadly stable, while the euro continued to weaken.

Performance of financial variables and chronology of the Eurosystem's Expanded Asset Purchase Programme
(percentage changes unless stated otherwise)

REFERENCE PERIOD (1)	5 Nov. 2014-21 Jan. 2015	21 Jan. 2015-6 Mar. 2015	6 Mar. 2015-10 Apr. 2015	5 Nov. 2014-10 Apr. 2015 (2)
Rate on 10-year BTPs (3)	-74	-37	-5	-117
Italian banks' CDS (3)	29	-51	7	-15
Dollar/euro (4)	-7	-5	-4	-15
Nominal effective exchange rate of the euro (4)	-4	-4	-2	-10
Share prices (5)	3	12	6	23

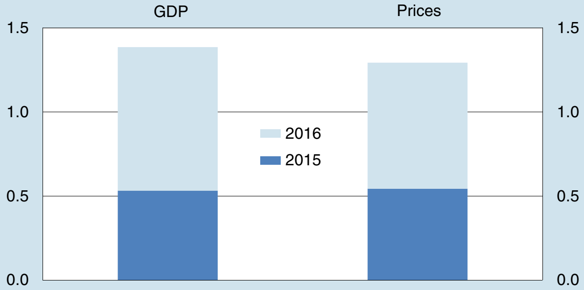
Source: Based on data from Thomson Reuters Datastream and Bloomberg.
(1) 5 November 2014, working day before the start of the preparatory work; 21 January 2015, working day before the announcement of the programme; 6 March 2015, working day before the start of the programme. – (2) Rounding may cause discrepancies. – (3) Basis points. – (4) Negative changes indicate depreciation. The nominal effective exchange rate of the euro is calculated with respect to the currencies of the euro area's 19 most important trading partners. – (5) FTSE Italia MIB index.

It is more difficult to quantify the other potential transmission channels, such as those operating through the wealth effect, inflation expectations and confidence, which could have a considerable macroeconomic impact but were not included in the estimates.

[5] See also P. Cova and G. Ferrero, 'L'acquisto di attività finanziarie pubbliche e private per fini di politica monetaria dell'Eurosistema e l'impatto sull'economia italiana', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.
[6] The decrease is smaller for firms because households account for a larger share of loans indexed to long-term interest rates.

Overall, according to the quarterly model these assumptions could raise the cumulative growth of Italy's GDP by 1.4 percentage points in 2015-16 and push inflation up by just over 0.5 percentage points in each of the two years (see the figure). The depreciation of the euro would account for two thirds of additional GDP growth and almost all of that in prices. The reduction in interest rates would contribute about 0.4 percentage points to the increased GDP growth.

Cumulative impact of the Eurosystem's Expanded Asset Purchase Programme (1)
(percentage changes)



(1) Overall increase in the level of GDP and of the harmonized index of consumer prices (HICP) in 2015-16 and distribution of the increase in each of the two years.

About half of these effects were already included in the macroeconomic scenario depicted in the January *Economic Bulletin*, which incorporated the reduction in interest rates and the depreciation of the euro observed after the Council meeting of 6 November 2014. Overall, if the purchase programme is conducted with determination, GDP growth could be more than 0.5 percentage points this year and around 1.5 points next year.

2.2 FIRMS

Italian firms continue to show signs of improving confidence, but industrial activity is still struggling to emerge from its protracted slump. There are positive indications for investment, which returned to growth in the fourth quarter of 2014 after contracting almost without a break since the start of 2011. The latest surveys also suggest a resumption of investment in the course of 2015.

The recovery of industrial activity is still uncertain...

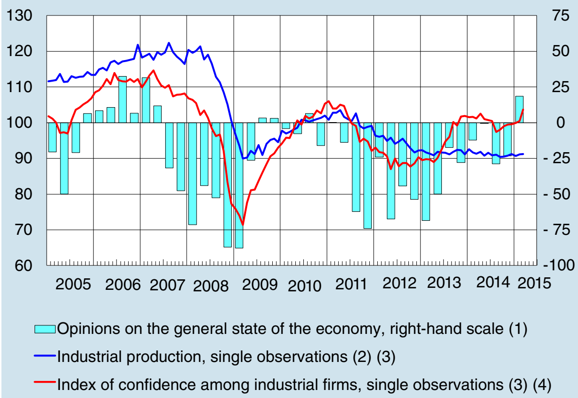
Industrial production showed signs of improvement last autumn that were only partially confirmed in the first few months of this year. Based on our estimates for March, it recorded a modest increase in the first quarter (Figure 18).

... while business confidence improves

The indicators derived from business surveys have improved sharply, pointing to a recovery in economic activity. Confidence continued to strengthen in all the main sectors in March, regaining the levels registered four years ago. Firms' evaluations were buoyed by favourable assessments of domestic and export orders and, to a lesser extent, expected trends in production. The purchasing managers index is in line with these indications, remaining above the threshold consistent with an expansion of activity both in manufacturing and in services. The quarterly survey in March

Figure 18

Industrial production and business confidence
(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Balance of responses 'better' and 'worse' to the question in the Bank of Italy-*Il Sole 24 Ore* quarterly survey on the state of the economy reported in Survey on Inflation and Growth Expectations, March 2015, Supplements to the Statistical Bulletin, No. 18, 2015; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; for March 2015, estimated data. – (3) Index, 2010=100. – (4) In June 2013 methodological changes were introduced to the sample and the survey techniques that make the data since then not directly comparable with the earlier data.

conducted together with *Il Sole 24 Ore* also found a clear improvement in firms' views of the overall state of the economy. By comparison with the previous survey, moreover, a larger proportion of firms reported that they planned to increase investment in 2015 (see the box 'Investment by Italian firms according to the Survey on Inflation and Growth Expectations').

INVESTMENT BY ITALIAN FIRMS ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

Between 2 and 19 March 2015 the Bank of Italy together with *Il Sole 24 Ore* conducted their quarterly survey of a sample of firms with 50 or more workers in industry excluding construction, services and construction. Compared with the previous survey, the results indicate widespread and growing optimism on the part of the firms interviewed, though most continue to view the economic situation as basically stable (see Survey on Inflation and Growth Expectations. March 2015, Supplements to the Statistical Bulletin, No. 18, 2015).

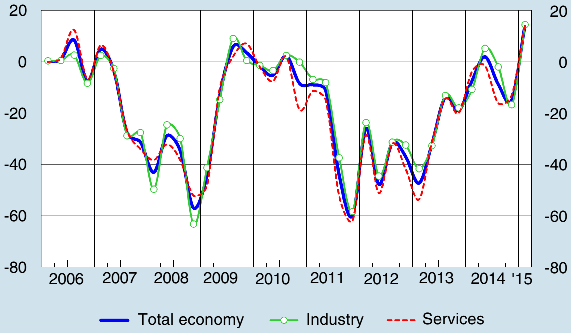
For the first time in four years the percentage of firms in both industry excluding construction and services reporting an improvement in the general state of the economy was higher than that of those indicating a deterioration. Firms' assessments of the current and expected trend of demand for their own products showed a marked improvement, especially for the foreign component. In the short term, firms expected output to be supported by demand and, to a lesser extent, by developments in their sales prices and in the exchange rate; for the first time since March 2008, when the information was made available, access to credit also appears to have provided some, albeit limited, positive stimulus. Compared with December, uncertainty about macroeconomic and political developments also lessened.

Firms' assessments of investment conditions improved markedly, both in industry excluding construction and services: the percentage balances between judgments of an improvement and of a deterioration reached the highest levels recorded since the outbreak of the global financial crisis (Figure A). Almost half the respondent firms expect their nominal investment expenditure in 2015 as a whole to remain unchanged from 2014 (see table), although the share of firms expecting an increase is greater than that planning a reduction, in particular in the service sector. Based on the assessments provided, capital spending is likely to

Figure A

Assessment of conditions for investing compared with the previous quarter (1)

(quarterly data; percentage points)



(1) Balance between judgements of improvement and of deterioration compared with the previous quarter in the quarterly Survey on Inflation and Growth Expectations conducted by the Bank of Italy with *Il Sole 24 Ore* in March 2015 and published in Supplements to the Statistical Bulletin, No. 18, 2015.

Firms' expectations with regard to investment (1)

(per cent)

	Industry excl. construction	Services	Industry excl. construction and services
Investment expenditure planned for 2015 compared with investment in 2014			
Higher	35.9	35.1	35.5
About the same	41.5	49.6	45.4
Lower	22.6	15.3	19.1
Investment expenditure planned for the first half of 2015 compared with investment in the second half of 2014			
Higher	25.7	29.8	27.7
About the same	50.6	49.6	50.1
Lower	23.7	20.6	22.2

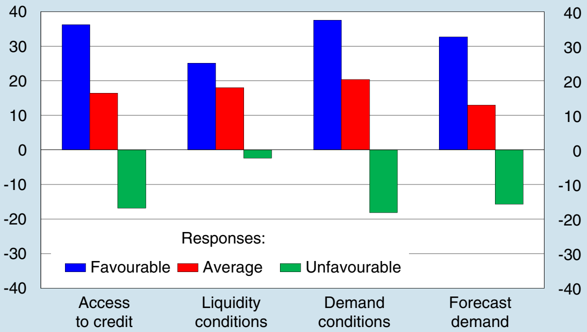
(1) Percentages weighted by the number of firms in the quarterly Survey on Inflation and Growth Expectations, conducted by the Bank of Italy with *Il Sole 24 Ore* in March 2015 *and* published in Supplements to the Statistical Bulletin, No. 18, 2015. Rounding may cause discrepancies.

strengthen in the second half of the year. Firms that express favourable judgments on demand for their own products and those with better credit conditions are more likely to step up investment spending in 2015 (Figure B); compared with the previous survey, the role of stimulus from current demand was especially important (see the box 'Investment by Italian firms according to the Survey on Inflation and Growth Expectations', *Economic Bulletin*, No. 1, 2015).

While more cautious than those of the other sectors, construction firms' assessments also reflected greater optimism. The conditions for investment improved and the share of firms declaring an increase in expenditure for the current year was significantly larger than the proportion indicating a decrease, with a recovery likely to be concentrated in the second half of the year.

Figure B

Firms' expectations with regard to investment in 2015 as a whole (1)
(percentage points)



(1) Balance between the percentage of firms in industry excluding construction and services that expect their nominal investment expenditure to be higher in 2015 than in the previous year and the percentage that expect it to be lower, broken down according to the responses to the questions on access to credit, expected liquidity conditions, and assessments and forecasts of demand for firms' own products in the quarterly Survey on Inflation and Growth Expectations conducted by the Bank of Italy with *Il Sole 24 Ore* in March 2015 and published in Supplements to the Statistical Bulletin, No. 18, 2015.

Capital formation returns to growth

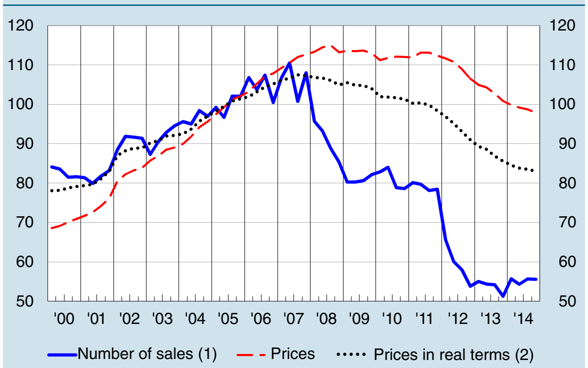
In the fourth quarter of 2014, after falling practically without interruption since the start of 2011, investment expanded (by 0.2 per cent compared with the third quarter); investment in machinery and equipment, which had been falling for more than a year, also edged up by 0.2 per cent, while spending on transport equipment increased sharply (7.7 per cent). The contraction in construction investment under way since the third quarter of 2010 abated, with a decrease of 0.6 per cent compared with 2.3 per cent a year earlier.

Construction activity, after a prolonged slump, shows signs of stabilizing

The number of house sales remained practically unchanged in the fourth quarter compared with the third; for 2014 as a whole it increased by 3.6 per cent. The fall in prices under way for over three years continued, although it moderated in 2014 year on year (Figure 19). The modest recovery in building activity, following a prolonged decline, continued in January. According to the survey conducted by the Bank of Italy and *Il Sole 24 Ore* in March, construction firms' views of the general economic situation and investment conditions were markedly better than they had been in December.

Figure 19

House prices and sales
(quarterly data; indices, 2005=100)



Sources: Based on data from Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and Consulente immobiliare.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index.

Competitiveness improves further

Preliminary estimates for February and March indicate another improvement in Italian export competitiveness, as measured by the producer prices of manufactures (Figure 20). The overall gain since the middle of last year is estimated at 3 percentage points. The positive trend, which is common to the other main euro-area countries as well, presumably reflects the significant depreciation of the euro.

Corporate profitability slips at the end of 2014

According to estimates based on the national accounts, in the fourth quarter of 2014 firms' operating profitability – gross operating profit over value added in the twelve months ending in December – diminished slightly, owing mainly to higher labour costs, and stayed at a historically low level. While self-financing remained stable, firms' financing requirement continued to contract because of the further reduction in gross investment as a ratio to value added. Financial costs remained unchanged.

Bank borrowing continues to contract

Bank loans to firms (including producer households) diminished further; the decline came to 2.6 per cent in the twelve months ending in February, compared with an average contraction of 2.4 per cent in the fourth quarter of 2014 (Figure 21). Between the third and fourth quarters firms' debt fell by 2 percentage points to 76.4 per cent of GDP (Figure 22).

Net bond issues record renewed growth in the first quarter

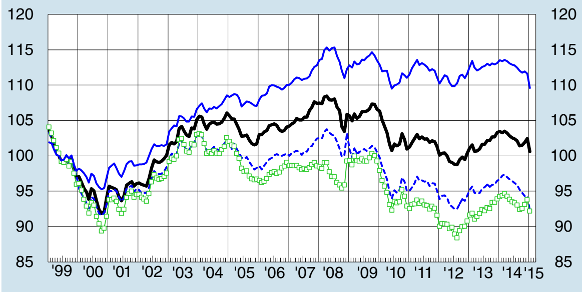
Net Italian corporate bond issues were practically nil in the fourth quarter of 2014, compared with net issues of €2.8 billion in the third quarter (Table 7), while gross share issues of resident non-financial corporations increased. Preliminary Dealogic data indicate that corporations resumed net bond issues in the early months of 2015.

2.3 HOUSEHOLDS

Household spending continues to increase, albeit slowly, bolstered mainly by purchases of durable goods. The opening months of the year saw household confidence improve sharply, particularly as regards assessments of the general state of the economy, with the indicators rising in March to the highest levels since June 2002.

Figure 20

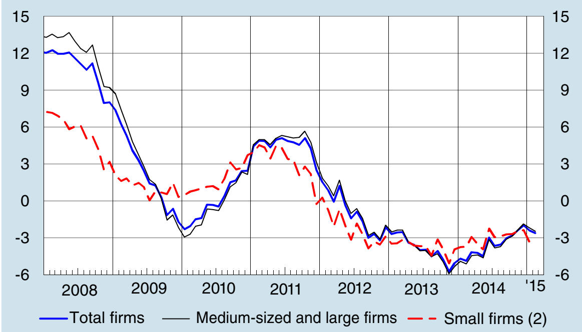
Indicators of competitiveness (1)
(monthly data; indices, 1999=100)



Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to January 2015.

Figure 21

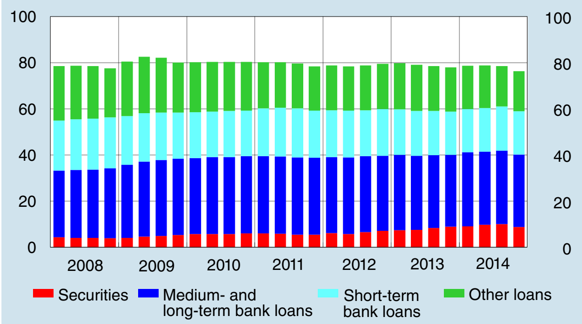
Firms' bank debt by size of firm (1)
(monthly data; 12-month percentage changes)



(1) Non-financial firms, including producer households. Data adjusted for the accounting effect of securitizations and for reclassifications. Includes repos and bad debts. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Figure 22

Debt of non-financial firms (1)
(quarterly data; per cent of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the 12 months ending in the quarter in question. Debt includes securitized loans.

Consumption recovers further ...

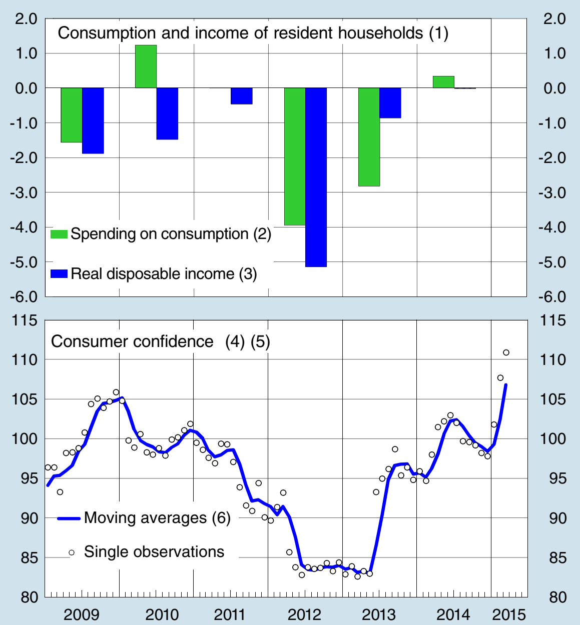
Private consumption, which had been recovering slowly since the summer of 2013, continued to pick up in the fourth quarter of 2014 (0.1 per cent compared with the third), but entirely thanks to the increase in spending on durable goods and services (0.3 per cent in both cases), while other consumption expenditure diminished. Although households' purchasing power fell by 0.5 per cent compared with the third quarter (Figure 23), its level remained higher than in the first half of 2014, in part owing to the measures introduced in the Stability Law to assist lower-middle-income households. In the most acute phase of the recession, consumption, which at the end of 2014 was still nearly 8 per cent below the pre-crisis levels, had been affected by the compression of disposable income and wealth (see the box 'Household consumption in recent recessions').

According to the latest indicators, consumption rose again in the first quarter of this year. The growth appears again to have been driven by purchases of services and durable goods; in the first quarter new car registrations picked up, rising by 7.3 per cent with respect to the previous period.

Figure 23

Consumption, disposable income and consumer confidence

(percentage changes and indices)



Source: Based on Istat data.
(1) Percentage changes on the previous year. – (2) Chain-linked volumes. – (3) Obtained using the consumption deflator for resident households. Chain-linked values, reference year 2010. – (4) Monthly data seasonally adjusted. Indices, 2010=100. – (5) In June 2013 methodological changes were introduced to the sample and survey techniques that make the data since then not directly comparable with the earlier data. – (6) Monthly data; moving averages for the 3 months ending in the reference month.

HOUSEHOLD CONSUMPTION IN RECENT RECESSIONS

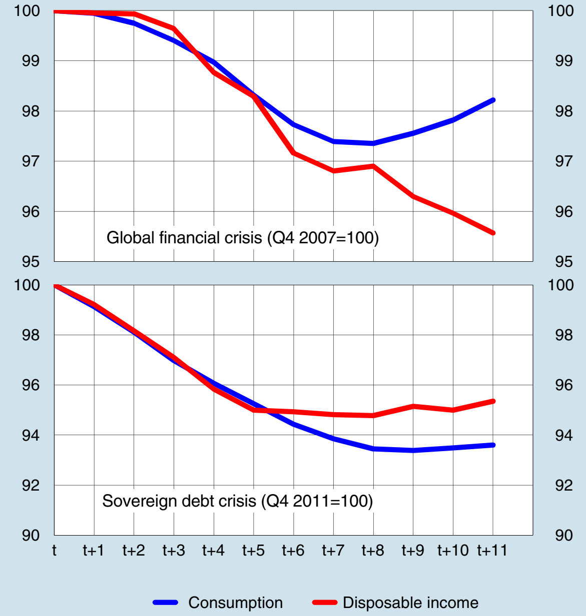
During the especially severe recessions of the early 1990s and 2008-09, in striving to smooth consumption and maintain living standards Italian households reduced their spending by less than the fall in real disposable income, thus lowering their saving rate (Figure A). During the sovereign debt crisis, by contrast, consumption initially diminished at about the same pace as income and then, starting in the second quarter of 2013, fell much more steeply, owing in part to the simultaneous drop in household wealth.[1]

One factor in this pattern was presumably the total length of the 'double-dip' recession. The compression of the saving rate in 2008-09 in order to buffer fluctuations in consumer spending appears to have eaten significantly into household wealth, which was also affected by powerful adverse shocks to the value of financial and real estate assets. The Bank of Italy's Survey of Household Income and Wealth found that median net wealth fell by 12.7 per cent between 2010 and 2012, mainly as a consequence of the decline in the value of real estate, its largest component.[2] With a view to restoring

[1] L. Rodano and C. Rondinelli, 'The Italian household consumption: a comparison among recessions', in Banca d'Italia, Workshops and Conferences, No. 18, 2014, pp. 158-85.
[2] For more details, see Household Income and Wealth 2012, Supplements to the Statistical Bulletin, No. 5, 2014.

Figure A

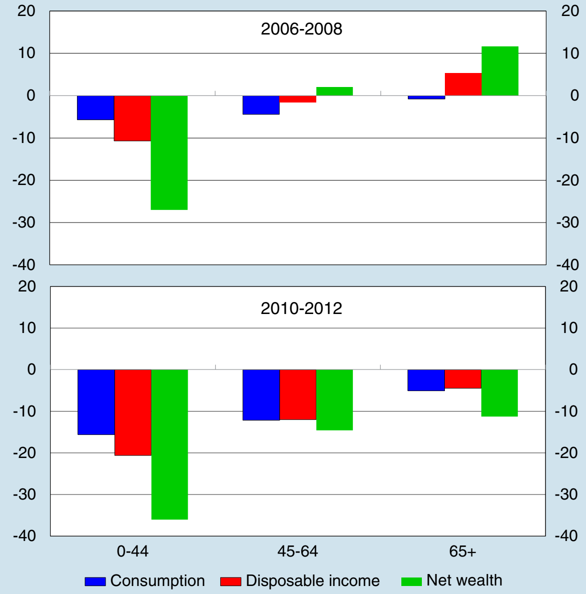
Households' disposable income and real consumption (1)
(indices)



Source: Based on quarterly Istat data.
(1) Consumer households. Four-quarter moving averages; indices=100 in the first quarter of contraction in annual disposable income.

Figure B

Consumption, disposable income and net wealth by age of household head (1)
(percentage changes)



Source: Based on data from the Survey on Household Income and Wealth.
(1) For consumption and disposable income, changes in the mean; for net wealth, changes in the median. Figures in real terms adjusted to take account of households' economies of scale.

their wealth to levels consistent with pre-recession standards of consumption, Italian households apparently increased the portion of income saved.

The recession affected different types of household unevenly. The reduction in consumption was greater for young households, among whom the contraction in disposable income and wealth was relatively more pronounced (Figure B). Looking ahead, Italian households believe the future course of consumer spending will depend on the possibility of at least partially recouping the steep fall in income suffered during the recession.

... and household confidence strengthens

In the early months of the year the index of consumer confidence increased sharply, and in March regained its June 2002 level. The increase was especially pronounced for assessments of the general state of the economy and the labour market outlook; by contrast, households' opinions concerning their own economic situation remained cautious, though improving.

The level and cost of debt remain unchanged

The ratio of Italian households' debt to dispos-able income remained unchanged in the fourth quarter of 2014 at 62.9 per cent (Figure 24), still well below the euro-area average of 96.0 per cent. Interest rates on new loans both for house purchase and for consumer credit continued to come down on average during the quarter; households' debt servicing burden (interest payments plus repayment of principal) held stable at 8.8 per cent of disposable income.

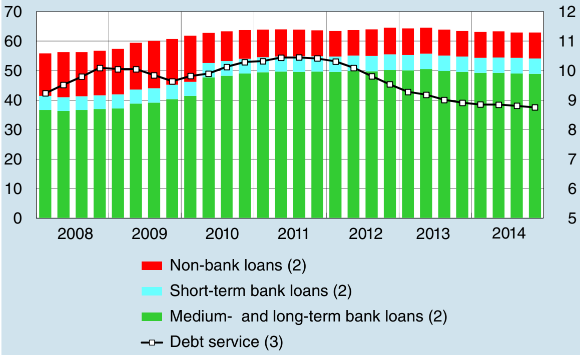
2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports picked up in the last quarter of 2014, mainly thanks to the recovery of demand from the EU countries. Expectations regarding foreign orders are favourable. The balance of payments on current account has continued to improve; recent months have seen an increase in both foreign purchases of Italian debt securities and Italian banks' funding on world markets.

Figure 24

Household debt (1)

(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. Data for the last quarter are provisional. Includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology see the note in Monetary and Financial Statistics. Financial Accounts, Supplements to the Statistical Bulletin, No. 58, 2010. – (3) Right-hand scale. Estimated cost of debt service (payment of interest and repayment of principal) for consumer households only.

Exports accelerate ...

In the fourth quarter of 2014 exports of goods and services increased by 1.6 per cent in volume terms compared with the third, which was the largest quarterly growth recorded in the last four years. Sales of goods rose by 1.5 per cent, those of services by 1.9 per cent. The main destination markets for Italian exports were, inside the EU, the United Kingdom, Spain and Poland and outside the EU, Turkey and the OPEC countries. The growth in exports was led by refined oil products, transport equipment, leather products, clothing and pharmaceutical products.

... while imports stagnate

Imports of goods and services increased slightly in the fourth quarter, by 0.3 per cent in volume terms. The strong upturn (3.0 per cent) in imports of services contrasted with the 0.3 per cent decline in goods imports, particularly from the EU countries, notably Germany, France and Spain. Outside the EU, imports of energy commodities from the OPEC countries picked up and purchases from Turkey and Switzerland rose steadily.

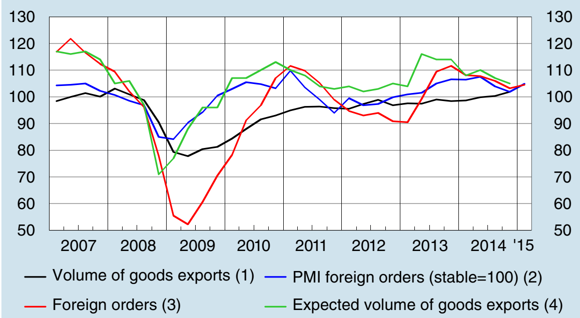
The outlook for exports is good

The latest data indicate that after a generalized downturn in January, in February exports made a strong recovery in value terms, especially on non-EU markets. Qualitative indicators point to an improvement in expectations for foreign demand: the manufacturing PMI index continued to rise, climbing back to last summer's level, well above the threshold indicating an expansion of sales (Figure 25).

Figure 25

Export volumes, foreign orders and firms' expectations

(seasonally adjusted quarterly data; indices)



Sources: Istat, Markit and Thomson Reuters Datastream.
(1) Index, 2007=100 (national accounts data). – (2) PMI quarterly average plus 50. – (3) Quarterly average based on Istat's monthly survey of firms' opinions on the economic outlook; percentage balance of replies of 'increasing' and 'decreasing' minus the average, plus 100. – (4) Based on Istat's quarterly survey of firms' opinions on the economic outlook for the next 3 months; percentage balance between replies of 'favourable' and 'unfavourable' plus 100.

The current account surplus improves further

The current account balance continued to improve in the closing months of 2014, recording a surplus of €31.2 billion for the year as a whole (1.9 per cent of GDP), twice as large as in 2013 (Table 3). The larger surplus came above all from the improvement in the trade balance.

Substantial net foreign private capital inflows are recorded in 2014

Net foreign portfolio investment in Italian securities totalled €97.7 billion in 2014, of which €58.8 billion related to public debt securities, for the most part medium- and long-term. After a brief hiatus in December, foreign purchases of Italian government securities resumed strongly in the first two months of 2015, amounting to €36.4 billion.

Residents continued to invest in foreign portfolio assets as 2014 came to a close. These investments totalled €93.2 billion over the year as a whole, more than two thirds relating to investment fund shares.

The TARGET2 balance improves in December despite some fluctuations

On 10 April the Bank of Italy's debtor balance on TARGET2 amounted to €185 billion, an improvement of €24 billion from the end of December notwithstanding some fluctuations during the period (Figure 26). The decrease was due above all to non-resident investors' renewed interest in public debt securities, and in January and February to the improvement in resident banks' net foreign funding. The balance instead widened at the end of March when Italian banks obtained Eurosystem funds mainly through the third TLTRO and were able to cut down on more costly funding on international wholesale markets. Fluctuations in the TARGET2 balance tend in any case to be wider towards the end of the month because some foreign banks move funds home for a short time; these movements are usually absorbed over the following days, as happened in the first week of April. Italy's debtor position, calculated as a monthly average of daily data, narrowed from €187 billion in December to €163 billion in March.

At the end of the fourth quarter of 2014 Italy's net international investment position was negative by €447.9 billion, equal to 27.7 per cent of GDP. The improvement of €61.4 billion with respect to the previous quarter was due almost entirely to the increase in assets, resulting partly from net purchases on financial account, mainly of shares and investment fund units, and partly from price and exchange rate adjustments.

Table 3

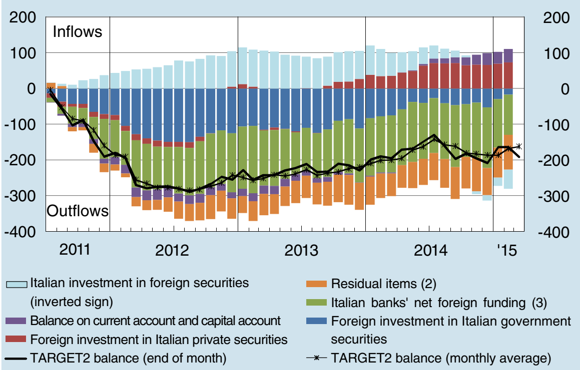
Italy's balance of payments (1)
(billions of euros)

	2013	2014	Jan.-Feb. 2014	Jan.-Feb. 2015
Current account	**15.0**	**31.2**	**-0.8**	**3.6**
Goods	36.1	49.5	4.0	7.9
non-energy products (2)	*87.6*	*90.2*	*11.6*	*13.1*
energy products (2)	*-51.5*	*-40.7*	*-7.6*	*-2.8*
Services	1.4	0.6	-1.3	-1.1
Primary income	-4.4	-2.3	0.5	0.8
Secondary income	-18.1	-16.6	-4.0	-4.0
Capital account	**0.2**	**3.4**	**-0.3**	**-0.1**
Financial account	**11.3**	**50.2**	**6.6**	**-5.1**
Direct investment	3.6	9.0	-3.4	2.3
Portfolio investment	-14.6	-4.5	-40.0	-5.6
Derivatives	3.0	-3.6	-1.9	-0.5
Other investment	17.7	50.2	52.2	-1.2
Change in official reserves	1.5	-1.0	-0.3	-0.1
Errors and omissions	**-3.8**	**15.7**	**7.6**	**-8.7**

(1) According to the international standards set out in the *IMF's Balance of Payments and International Investment Position Manual, 6th edition*. For January and February 2015, provisional data. – (2) Based on Istat foreign trade data.

Figure 26

Cumulative balance of payments flows and TARGET2 balance (1)
(billions of euros)



(1) Cumulative capital flows from July 2011 onwards. Bank of Italy's TARGET2 debtor balance vis-à-vis the ECB, monthly average and end-of-month balance. – (2) Direct foreign investment, derivatives, other investment, errors and omissions. – (3) Including funds intermediated by resident central counterparties.

2.5 THE LABOUR MARKET

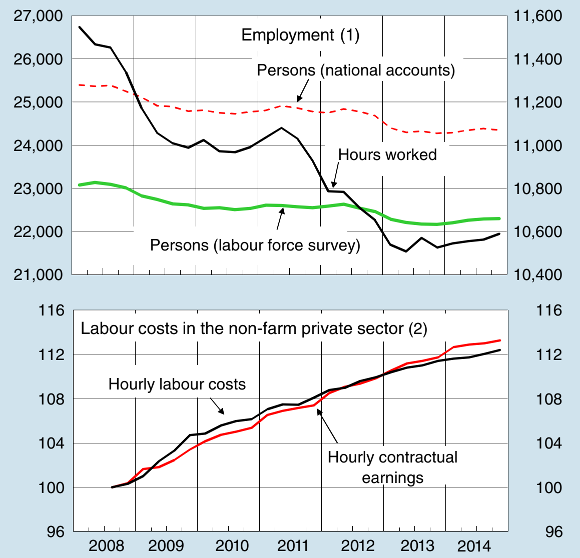
In the fourth quarter of 2014 the recovery in the total number of hours worked was accompanied by a slight drop in the number of persons employed. In January and February employment remained stable and the unemployment rate fell due to a decline in labour market participation. Firms' expectations for the second quarter of 2015 indicate a slight improvement in employment prospects, possibly due in part to the social contribution relief on new hires and the innovations introduced by the Jobs Act. The rate of growth in labour costs has remained stable and below that of contractual wages.

At the end of 2014 the number of hours worked continues to grow ...

According to the national accounts, the number of persons employed, on a seasonally adjusted basis, declined slightly, by 0.2 per cent, during the fourth quarter of 2014 (Figure 27). This can be ascribed exclusively to the construction industry, since all the other sectors remained basically stable. Total hours worked increased further (0.2 per cent; Table 4), a trend sustained over the last four quarters, as did the more intensive use of the labour factor (hours per worker), which was more marked in industry excluding construction (0.7 per cent).

Figure 27

Employment and labour costs



Source: Istat: labour force survey, quarterly national accounts, and survey of contractual earnings.
(1) Thousands of persons (left-hand scale), millions of hours (right-hand scale); seasonally adjusted quarterly data. – (2) Indices, Q3 2008=100; raw quarterly data for hourly contractual earnings, seasonally adjusted data for hourly labour costs.

... and the number of permanent jobs slips ...

While the self-employed component was basically stable, salaried employment fell slightly (-0.2 per cent). According to data from the labour force survey this was the result of lower growth in fixed-term positions and a slight reduction in permanent ones. In part this may reflect the choice of firms to postpone hiring workers for permanent positions in order to benefit from the contribution relief introduced by the Stability Law and also to make sure new contracts will be covered by the Jobs Act (Law 183/2014).

... but may now be recovering

Preliminary data released by the Ministry of Labour indicate that following the contraction recorded in the fourth quarter of 2014, the number of new permanent employment contracts grew in the first two months of 2015. The contribution relief may have been a factor; on the basis of the available data, it is not yet possible to determine the extent to which this may have been the case or to estimate the overall impact on employment.

The Jobs Act comes into force

On 7 March Legislative Decrees 22/2015 and 23/2015 came into force, implementing the Jobs Act. Decree 22 changes the structure of unemployment insurance, extending the net to additional potential beneficiaries. Decree 23 deals with dismissals, limiting uncertainty about the result of possible disputes. These measures are intended to sustain employment and can attenuate the two-tier labour market by encouraging a shift towards more stable forms of employment contract. Data for March are still only partial and do not permit an evaluation of the impact of these measures on the demand for labour, net of the effects of the social contribution relief and the cyclical situation.

Table 4

Employment and unemployment

(seasonally adjusted quarterly data; thousands of persons; millions of hours; percentage changes on previous quarter)

	Number	Change			
	Q4 2014	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Total persons in work	**24,347**	**0.1**	**0.2**	**0.2**	**-0.2**
of which: *industry excl. construction*	*4,220*	*0.2*	*0.1*	*-0.4*	*0.1*
private services (1)	*10,469*	*0.2*	*0.1*	*0.4*	..
employees	*18,127*	*0.1*	*0.4*	*0.3*	*-0.2*
self-employed	*6,220*	*0.1*	*-0.4*	*-0.2*	..
Hours worked	**10,589**	**0.2**	**0.1**	**0.1**	**0.2**
of which: *industry excl. construction*	*1,846*	*1.0*	*-0.9*	*0.8*	*0.8*
private services (1)	*4,844*	*0.3*	*0.1*	..	*0.1*
employees	*7,172*	*0.1*	*0.4*	*0.3*	*0.1*
self-employed	*3,417*	*0.3*	*-0.5*	*-0.4*	*0.6*
Job seekers	**3,328**	**1.6**	**-0.8**	**3.4**	**1.8**
Labour force	**25,629**	**0.3**	**0.1**	**0.5**	**0.3**

Source: Istat: quarterly national accounts (persons in work and hours worked); labour force survey (job seekers and labour force).
(1) Does not include services to households and individuals.

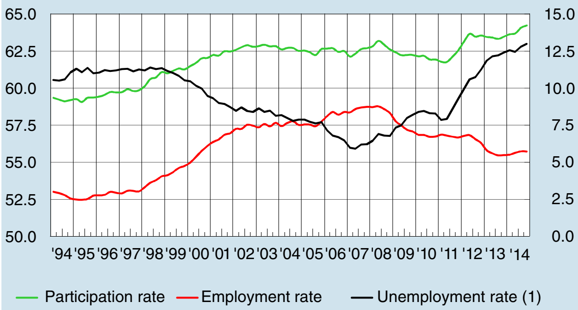
In January and February the unemployment rate levels off

In the fourth quarter of 2014 the unemployment rate rose to 13.0 per cent (from 12.8 per cent in the third) as a result of higher labour market participation amongst persons over 45 and women (Figure 28). In January and February the unemployment rate declined by 0.3 percentage points compared with the last quarter of 2014. The fall in the unemployment rate amongst the youngest workers continued (down by 0.4 points to 41.9 per cent), reflecting, as at the end of 2014, a decline in participation.

Figure 28

Participation, employment and unemployment rates

(seasonally adjusted quarterly data; per cent)



Source: Istat labour force survey.
(1) Right-hand scale.

Growth in the cost of labour remains stable and is lower than growth in contractual wages

National accounts data show that in the last three months of 2014 the rate of hourly labour cost growth in the non-farm private sector was steady (0.9 per cent compared with the year-earlier period); over the last two years labour costs have increased by less than contractual wages (Figure 27). Unit labour costs continued to grow moderately (a twelve-month rise of 1.5 per cent in the fourth quarter, up from 1.4 per cent in the third quarter) partly owing to reduced hourly productivity (down by 0.6 per cent compared with a year earlier). Since the onset of the sovereign debt crisis, the growth of Italian unit labour costs has been lower than that of Germany and in line with that of France, as the slower growth of hourly labour costs has compensated for poorer productivity performance.

In March and April the collective bargaining agreements for the retail trade and banking sectors were renewed. As regards the retail sector, the agreed annual average increase of 1.6 per cent is basically in line with that suggested by the price index taken as a reference during the bargaining process, while in banking the increase was smaller (0.7 per cent).

The employment outlook improves

Employment prospects appear to be improving somewhat. The number of wage supplementation hours authorized, which had remained basically unchanged in the fourth quarter of 2014, fell significantly in the first two months of 2015. Business surveys conducted by Istat and by Bank of Italy-*Il Sole 24 Ore* point towards better performance on the job front in the spring months.

2.6 PRICE DEVELOPMENTS

Inflation is practically nil; the rate of increase in the core components remains extremely low. Analysts predict zero inflation will prevail in 2015 as a whole, although consumers' expectations rose slightly in the first few months of the year.

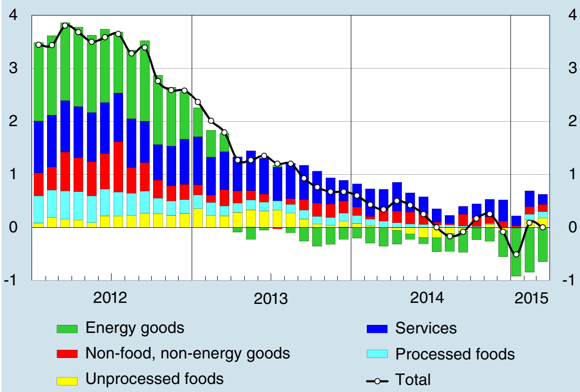
Inflation is practically nil

The twelve-month change in the harmonized index of consumer prices (HICP) was virtually nil in February and March (Figure 29), continuing to reflect the negative impact of the prices of energy goods (down 6.5 per cent in March) and the moderation of core inflation, which in March fell to 0.4 per cent, as in August 2014, the lowest level since the start of the

Figure 29

Consumer price inflation in Italy and its components (1)

(monthly data; 12-month percentage changes and percentage points)



Source: Based on Eurostat data.
(1) Harmonized index of consumer prices

Table 5

Indicators of inflation in Italy

(12-month percentage changes)

	HICP (1)			CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. energy and food	Overall index
2011	2.9	2.0	2.6	2.8	–	1.3	5.1
2012	3.3	2.0	2.5	3.0	–	1.7	4.1
2013	1.3	1.3	1.1	1.2	–	1.1	-1.2
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8
2014 – Jan.	0.6	0.9	0.3	0.7	0.2	0.9	-1.5
Feb.	0.4	0.9	0.1	0.5	-0.1	0.9	-1.7
Mar.	0.3	0.9	-0.1	0.4	0.0	0.8	-1.9
Apr.	0.5	1.1	0.2	0.6	0.0	1.0	-1.7
May	0.4	0.8	0.0	0.5	0.0	0.7	-1.7
June	0.2	0.7	-0.2	0.3	0.0	0.7	-1.8
July	0.0	0.5	-0.3	0.1	-0.1	0.6	-1.9
Aug.	-0.2	0.4	-0.6	-0.1	0.1	0.5	-2.1
Sept.	-0.1	0.5	-0.5	-0.2	0.0	0.4	-2.0
Oct.	0.2	0.6	0.2	0.1	0.1	0.5	-1.5
Nov.	0.3	0.6	0.3	0.2	0.0	0.5	-1.5
Dec.	-0.1	0.7	-0.1	0.0	-0.1	0.7	-2.1
2015 – Jan.	-0.5	0.5	-0.5	-0.6	-0.4	0.3	-3.8
Feb.	0.1	0.9	0.0	-0.1	0.4	0.5	-3.3
Mar.	0.0	0.4	….	-0.1	0.0	0.3	….

Source: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the harmonized index principally on account of the different method of recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Index calculated by Istat by subtracting from sales prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) Seasonally adjusted.

Monetary Union (Table 5). Price changes continued to be subdued for a large number of basic items in the HICP basket.

Producer price pressures are absent

The producer prices of industrial goods sold on the domestic market continued to fall during the winter, declining by 3.3 per cent in February from a year earlier. Alongside the decline in the prices of energy and intermediate goods, this reflected the persistent moderation of those of non-food goods for final consumption (0.5 per cent), which provide indications about the future trend of the corresponding consumer prices.

Firms and households expect a slight rise in inflation

The survey conducted in March by the Bank of Italy with *Il Sole 24 Ore* found that firms expected to make slightly larger upward adjustments to their price lists than in the December survey, reflecting less pessimistic forecasts of the strength of demand. These findings are confirmed by the PMI indicator, which in March recorded a modest upturn in the component referring to sales prices. Inflation is also projected to remain low in the next twelve months according to the Istat surveys on households' expectations, but the share of consumers who predicted a decline in prices diminished from 9.3 per cent in January to 5.9 per cent in March. The professional forecasters surveyed in March by Consensus Economics expected inflation to be practically nil on average in 2015.

2.7 BANKS

The cost of lending has fallen slightly again. Business lending continues to decline, mostly reflecting weak demand. Credit supply conditions have recorded a moderate easing for the largest firms; the restriction for the smallest firms has halted. Construction firms, whose proportion of non-performing loans is greater, still face difficulties in accessing credit.

Business lending continues to contract

In the three months ending in February the seasonally adjusted annual rate of change in lending to the non-financial private sector was still negative (-1.8 per cent; Figure 30). Lending to non-financial corporations fell by 3.0 per cent (from -2.2 per cent in November) in part owing to the hesitant revival of industrial activity (see Section 2.2); the reduction in lending to households all but halted.

In the twelve months ending in February the decline in lending to non-financial firms was most pronounced in the construction sector (-4.7 per cent), where activity continued to be especially slack and the proportion of non-performing exposures elevated; in services and manufacturing the decline instead stabilized at a little over 2 per cent. In all sectors the gap widened between the rate of change in lending to firms with 20 or more workers (which for these firms was -2.5 per cent in February, against -2.4 per cent in November) and lending to the smallest firms (-4.7 per cent, from -3.3 per cent).

Figure 30

Bank lending to the non-financial private sector (1)

(monthly data; percentage changes)

(1) Includes bad debts, repos and the loans not reported in banks' balance sheets because they have been securitized. The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) Seasonally adjusted.

Between November and February Italian banks' funding increased, owing to the increase in deposits by resident firms and households, as well as in non-resident deposits and net liabilities in the form of repurchase agreements with central

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	November 2014	February 2015	November 2014	February 2015
Assets				
Loans to Italian residents (4)	1,816	1,817	-1.2	-1.7
to firms (5)	*818*	*806*	*-2.6*	*-3.0*
to households (6)	*596*	*598*	*-0.5*	*-0.4*
Claims on central counterparties (7)	95	101	-1.9	48.8
Debt securities excluding bonds of resident MFIs (8)	548	556	-4.8	-0.8
securities of Italian general government entities	*422*	*434*	*-1.3*	*3.9*
Claims on the Eurosystem (9)	12	10	-25.9	-50.2
External assets (10)	305	329	2.2	10.6
Other assets (11)	1,239	1,235	-5.7	-4.1
Total assets	**4,016**	**4,048**	**-3.0**	**-0.8**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,331	1,347	6.1	7.8
Deposits of non-residents (10)	309	331	-5.4	5.3
Liabilities towards central counterparties (7)	130	168	-6.3	40.3
Bonds (13)	466	452	-12.1	-13.4
Liabilities towards the Eurosystem (9)	175	141	-23.2	-34.1
Liabilities connected with transfers of claims	132	130	-13.1	-11.0
Capital and reserves	418	438	8.3	8.8
Other liabilities (14)	1,054	1,041	-6.2	-6.6
Total liabilities	**4,016**	**4,048**	**-3.0**	**-0.8**

Source: Supervisory reports.
(1) The figures for February 2015 are provisional. – (2) Billions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate variations. Loans to firms and households are adjusted for securitizations. – (4) Excludes transactions with central counterparties. – (5) Harmonized definition; excludes producer households. – (6) Harmonized definition; includes producer households, non-profit institutions serving households and units not classified elsewhere. – (7) Only repos. – (8) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (9) Accounts with the Eurosystem for monetary policy operations; see Monetary and Financial Indicators. Money and Banking, Supplements to the Statistical Bulletin, Tables 1.4a and 1.4b. – (10) In the period considered these refer mainly to interbank transactions. – (11) Bonds issued by resident MFIs, loans to resident MFIs, shares and other equity of resident companies, cash, money market fund units, derivatives, movable and immovable goods, and some minor items. – (12) Excludes liabilities connected with transfers of claims. – (13) Excludes liabilities towards resident MFIs. – (14) Bonds held by resident MFIs, deposits of resident MFIs, money market fund units, derivatives, and some minor items.

counterparties, which to a large extent consist of foreign interbank funding (Table 6). In the same period the contraction in bonds and in liabilities vis-à-vis the Eurosystem continued.

Supply conditions still differ according to firm size and sector of activity

According to the Italian banks taking part in the latest bank lending survey, in the first quarter of 2015 credit supply conditions eased further for both firms and households (see the box ‘Credit supply and demand’). Household mortgage demand was reported to have risen sharply again, while non-financial corporations’ demand for loans remained unchanged. Intermediaries’ greater propensity to lend is confirmed in recent business surveys; however, conditions still differ depending on firm size and sector of economic activity.

CREDIT SUPPLY AND DEMAND

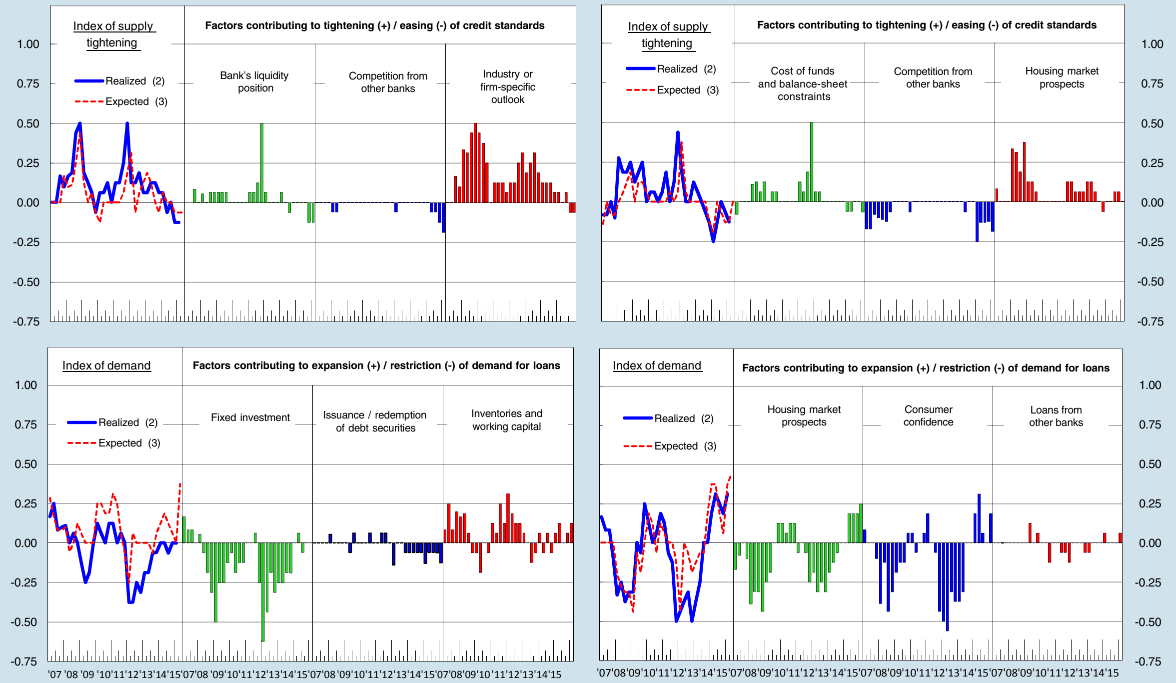
According to the banks interviewed in March as part of the quarterly euro-area bank lending survey, in the first quarter of 2015 supply conditions eased moderately once again for lending to firms and to households for house purchase (Figure A).[1] Regarding lending terms and conditions, banks reported a further reduction in the average margin on loans and, for loans to firms, a slight increase in the size of the loans granted and/or of the credit lines.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 23 March. The results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The responses concerning assessments for the first quarter of 2015 and expectations for the next quarter were published on 14 April.

Figure A

Supply conditions and trends in credit demand in Italy (1)

(a) *Lending to firms* (b) *Lending to households for house purchase*



Source: Euro-Area Bank Lending Survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed on the basis of the following weighting scheme. For supply conditions: 1=tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=eased somewhat, -1=eased considerably; for demand: 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably. The range of variation of the index is from -1 to 1. – (2) Refers to the quarter ending at the time of the survey. – (3) Forecasts made in the preceding quarter.

Changes in lending policies and in terms and conditions mainly reflected greater competition between the banks (presumably mainly to the benefit of more creditworthy borrowers), a reduction in the cost of funds, and the easing of the banks' balance-sheet constraints.

Firms' demand for credit was reported to have remained unchanged. The survey indicated that the increase in demand to finance inventories and working capital and for debt restructuring together with the stimulus afforded by low interest rates was counterbalanced by greater recourse to alternative sources of financing. Demand for mortgage loans continued to expand, mainly buoyed by low interest rates and an improvement in the outlook for the housing market. For the current quarter almost all banks expect a strengthening of demand both for business loans and for household mortgage loans.

The responses to specific questions on banks' access to sources of financing indicate a considerable improvement in funding conditions on the wholesale markets, in particular for medium- and long-term securities and securitizations.

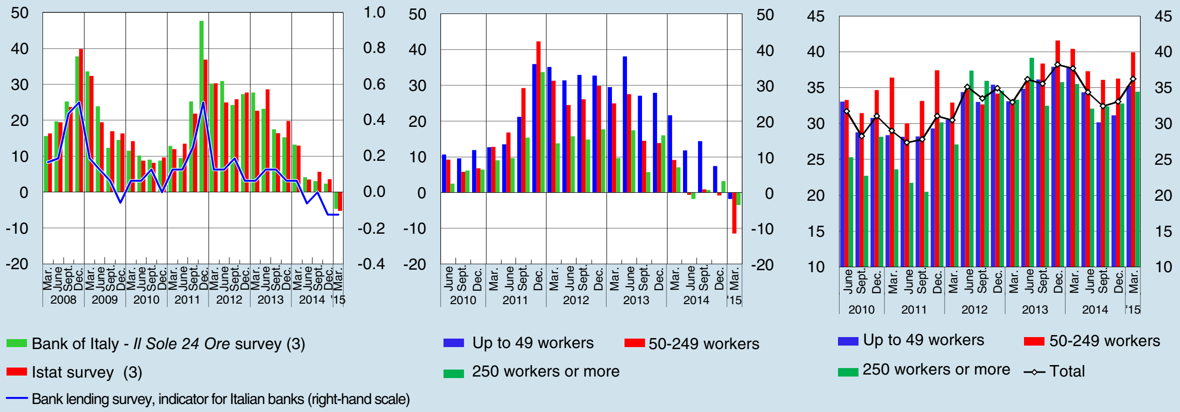
In the survey banks were also asked to assess the impact of the ECB's expanded asset purchase programme announced on 22 January (see the box 'The macroeconomic impact for Italy and the Eurosystem's Asset Purchase Programme'). The programme produced above all an improvement in funding conditions for banks on the market and, to a lesser extent, it strengthened their liquidity and profitability. In relation to supply policies, the programme primarily helped to ease lending terms and conditions for both firms and households; looking ahead, banks expect this positive impact to grow stronger in the current quarter.

Indications consistent with the bank lending survey come from surveys of firms conducted in March, which indicated that the conditions of access to credit are no longer tightening; however, there are still noticeable differences between firms according to size and sector of economic activity.

According to Istat's monthly survey of business confidence in the manufacturing sector, loan demand picked up in the first quarter of 2015 but continued to be weak. Lending conditions showed a further slight improvement compared with the end of 2014 for companies with 50 workers or more; the tightening of conditions for smaller firms has halted (Figure B). The share of firms reporting that they had not obtained the funding requested continues to be greater for smaller companies (13.7 per cent against 9.5 per cent for larger ones).

Figure B

Firms' access to credit and demand for loans (1)



(1) The Bank of Italy-*Il Sole 24 Ore* survey is conducted on a sample of firms in industry excluding construction and in services; the Istat survey on a sample of firms in manufacturing. The Istat result is taken from the end-*of-quarter survey: in June* 2013 some methodological changes involving the sample and data observation techniques were made, precluding direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Istat, Indagine sulla fiducia delle imprese manifatturiere. – (3) Net percentage of firms reporting difficulty in obtaining credit. The net percentage is calculated as the difference between the percentage of replies indicating a tightening of lending conditions and the percentage of those indicating an easing. – (4) Share of firms that have contacted banks and been granted or refused the funds requested (quarterly average).

In the quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore* the net percentage of firms reporting a worsening of credit access conditions turned negative in industry excluding construction and in services, whereas it remained positive in the construction sector (4.7 per cent).

There is widespread recourse by Italian banks to the third TLTRO

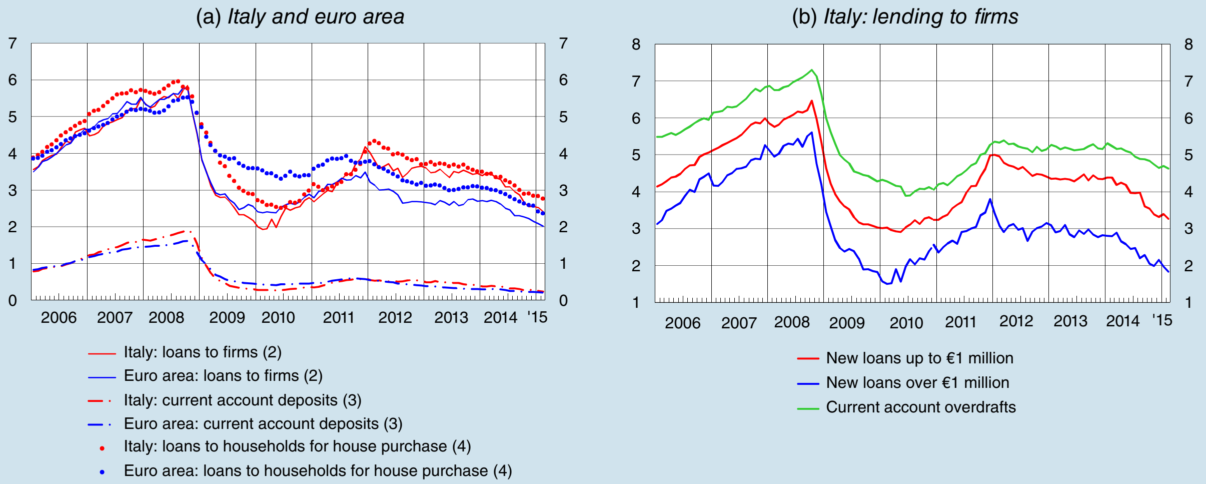
The funds obtained by the counterparties of the Bank of Italy in the third targeted longer-term refinancing operation, settled on 25 March 2015, were €36 billion. The maximum amount of liquidity that could be obtained by each intermediary depended on the flow of loans disbursed to the private sector between May 2014 and January 2015 (see Section 1.2). The financing came in addition to the €57 billion already obtained in the first two TLTROs held in September and December 2014, which some intermediaries said they intended to use for new lending to firms and households.

The cost of credit falls for households and firms

The cost of new bank loans to households and firms, which declined steadily throughout 2014, recorded a further fall of about 15 basis points between November and February, with small and large firms benefiting to the same extent (Figure 31). The reduction in margins applied by the banks may have been a contributory factor, in part linked to the recent monetary policy measures (see Section 1.2). Preliminary analysis suggests that at the end of 2014 the fall in the cost of credit, which had previously mostly involved exporting firms and those with the highest credit ratings, gradually extended to other borrowers. In February the rate on new lending to households stood at 2.8 per cent, that to firms at 2.4 per cent. After narrowing considerably in the second half of 2014, the spread over the euro-area average widened slightly for both firms and household lending, to 40 basis points.

Figure 31

Bank interest rates (1)
(monthly data; per cent)



Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Rate on new loans to firms. – (3) Rate on current accounts of households and firms. – (4) Rate on new loans to households for house purchase.

The new bad debt ratio increases slightly

In the fourth quarter of 2014, on a seasonally adjusted annual basis the flow of adjusted new bad debts in relation to outstanding loans was equal to 2.7 per cent, two tenths of a point more than in the second and third quarters. The indicator rose for loans to firms in all sectors, most markedly for construction firms; the new bad debt ratio for households increased by one tenth of a point. Preliminary data indicate that in January and February banks' total exposure to borrowers with loans reported as bad debts for the first time was 6 per cent lower than twelve months earlier; compared with the previous two months, however, there was a slight increase on a seasonally adjusted basis.

Profitability at the main banking groups is still weak

In 2014 the profitability of the five largest banking groups – while improving slightly – remained weak. ROE, net of non-recurring components such as goodwill impairments, was negative (-1.8 per cent, against -2.4 per cent in 2013). Interest and fee income increased (by 1.5 and 5.3 per cent respectively), trading profits slumped; overall, gross income remained virtually unchanged. Operating profits increased slightly (0.6 per cent), reflecting the reduction in operating expenses (-0.8 per cent). As in 2013, loan provisioning absorbed all the operating profits, also reflecting the full incorporation in banks' balance sheets of the results of the asset quality review held as part of the comprehensive assessment.

In the fourth quarter of 2014 the negative earnings led to a slight reduction in capital ratios. In December the common equity tier 1 ratio, tier 1 ratio and total capital ratio of the five largest groups were 11.4, 12.0, and 14.8 per cent respectively.

2.8 THE FINANCIAL MARKETS

Conditions on the Italian financial markets have improved considerably, especially following the launch of the Eurosystem's Public Sector Purchase Programme. Yields on government securities have declined, as have the risk premiums on sovereign and private debt; share prices have risen sharply and their volatility has decreased.

Yields on government securities diminish for all maturities ...

Under the Eurosystem's Expanded Asset Purchase Programme the Bank of Italy will acquire around €130 billion of Italian government securities, €150 billion including the operations conducted by the ECB. The expected effects of the programme have already caused yields to fall sharply, reaching unprecedented lows on all maturities (see the box 'The macroeconomic impact for Italy of the Eurosystem's Asset Purchase Programme'). The interest rate on ten-year securities has fallen by 62 basis points since the end of 2014 (to 1.27 per cent); the spread with respect to the corresponding German Bund has narrowed by 24 basis points to 111 points (Figure 32).

... and banks' credit risk premiums fall

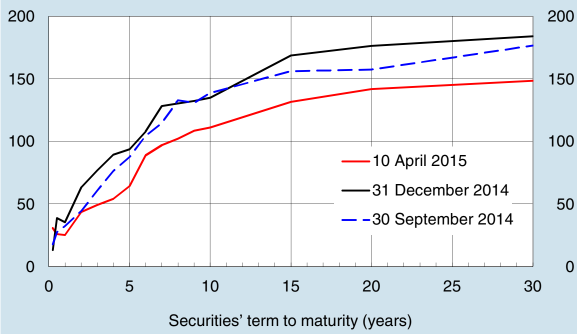
Banks' credit risk premiums have also decreased: the credit default swap spreads of the largest Italian banks have fallen by 32 basis points to 124 points; those of the leading French and German banks also decreased, by 14 and 6 basis points respectively. The yield spreads of Italian non-financial corporations' bonds over the highest-rated euro-area government securities narrowed slightly, by 5 basis points, to 91 points. In the euro area as a whole corporate risk premiums were stable.

Banks continue to make net bond redemptions

Banks continued to make net bond redemptions in the fourth quarter of 2014, both in Italy and in the euro area, amounting to €39 billion and €139 billion respectively (Table 7). According to

Figure 32

Term structure of the yield spread between Italian and German government securities
(basis points)



Source: Based on Bloomberg data.

Table 7

Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non- financial corporations	Total
		Italy (2)		
2013	-80.3	-17.1	22.8	-74.6
2014	-153.0	-16.7	4.6	-165.1
2013 – Q1	-29.8	-3.2	3.8	-29.2
Q2	-14.8	-2.5	3.5	-13.8
Q3	-21.5	-3.6	8.6	-16.4
Q4	-14.2	-7.9	6.9	-15.2
2014 – Q1	-48.5	-8.6	3.2	-53.8
Q2	-28.3	2.0	-1.5	-27.8
Q3	-37.6	-6.9	2.8	-41.7
Q4	-38.7	-3.2	0.1	-41.8
		Euro area		
2013	-377.0	-56.7	81.7	-352.0
2014	-406.3	53.2	62.2	-291.0
2013 – Q1	-128.9	-27.5	21.7	-134.7
Q2	-103.4	10.5	13.0	-79.9
Q3	-97.8	-5.9	27.9	-75.8
Q4	-46.8	-33.8	19.1	-61.6
2014 – Q1	-116.8	-23.2	19.2	-120.7
Q2	-70.4	73.4	18.0	21.0
Q3	-80.6	-7.6	13.5	-74.7
Q4	-138.6	10.5	11.4	-116.6

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than 1 year, at face value, issued by companies resident in Italy (top panel) or the euro area (bottom panel) and belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed. – (2) The data on net issues in Italy differ from those published up to October 2014 as a consequence of the introduction of the new ESA 2010 accounting standards.

provisional Dealogic data on gross issues, Italian banks made more placements in the first quarter of 2015 than in the previous quarter (€10.8 billion compared with €4 billion) although this was still less than the average of €13 billion recorded for 2012-14.

The stock exchange index rises sharply

The stock markets also benefited from the positive effect of the ECB's decisions. From the beginning of the year share prices have risen by 26 per cent in Italy and by 22 per cent in the euro area as a whole (Figure 33). The upturn reflected the fall in interest rates and the decrease in the risk premium demanded by investors, which more than outweighed the negative contribution of lowered expectations regarding corporate profits. Expected share price volatility, implied by the prices of stock exchange index options, diminished considerably.

Figure 33

Share prices (1)

(daily data; indices, 3 January 2011=100)

Source: Thomson Reuters Datastream.
(1) Indices: for Italy, FTSE Italia MIB storico; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500.

Net inflows to investment funds diminish

According to the asset management association Assogestioni, in the fourth quarter of 2014 the net inflow of savings to Italian and foreign open-end investment funds decreased to €19 billion, from €27 billion in the previous quarter. Net fund-raising was substantial for flexible and balanced funds, while redemptions exceeded subscriptions for equity and hedge funds.

2.9 THE PUBLIC FINANCES

General government net borrowing was practically unchanged in 2014, at 3.0 per cent of GDP (Table 8), despite the continuing recession. The ratio of debt to GDP rose by 3.6 percentage points to 132.1 per cent, reflecting among other factors the virtual stagnation of nominal output. About a third of the increase consisted in the effect of the measures on overdue general government debts and financial support to EMU countries. In the first quarter of 2015 the state sector borrowing requirement was smaller than in the year-earlier quarter, while state budget tax revenue was essentially stable.

Table 8

General government balances and debt (1)

(billions of euros and per cent of GDP)

	2011	2012	2013	2014
Net borrowing	57.2	48.3	47.5	49.1
% of GDP	*3.5*	*3.0*	*2.9*	*3.0*
Primary surplus	19.3	35.8	30.5	26.1
% of GDP	*1.2*	*2.2*	*1.9*	*1.6*
Interest payments	76.4	84.1	77.9	75.2
% of GDP	*4.7*	*5.2*	*4.8*	*4.7*
Debt	1,907	1,989	2,069	2,135
% of GDP	*116.4*	*123.1*	*128.5*	*132.1*
Debt net of support provided to EMU countries (2)	1,894	1,946	2,013	2,075
% of GDP	*115.6*	*120.5*	*125.1*	*128.4*

Source: The items of the general government consolidated accounts are based on Istat data.
(1) Rounding may cause discrepancies in totals. – (2) Net of loans to Greece, Italy's share of the loans granted by the EFSF and its capital contribution to the ESM.

Net borrowing is virtually stable in 2014, at 3.0 per cent

The budget outturn for 2014 shows net borrowing in line with the estimate made in the 2015 Draft Budgetary Plan released in October (Table 9) and also, according to the European Commission's latest projections, with the average for the countries of the EU. The primary surplus was 1.6 per cent of GDP (1.9 per cent in 2013), 2 points higher than the EU average.

Table 9

Public finance objectives and estimates for 2014

(billions of euros and per cent of GDP)

	General government			Memorandum item: GDP growth rate
	Net borrowing	Primary surplus	Debt (1)	
Objectives				
April 2013 (2) (3)	28.5	61.9	2,094.3	1.3
% of GDP	*1.8*	*3.8*	*129.0*	
September 2013 (3) (4)	....	....	2,128.8	1.0
% of GDP	*2.5*	*2.9*	*132.8*	
September 2014 (5)	....	....	2,140.6	-0.3
% of GDP	*3.0*	*1.7*	*131.6*	
Estimates				
April 2014 (3) (6)	41.9	40.7	2,141.5	0.8
% of GDP	*2.6*	*2.6*	*134.9*	
September 2014 (5)	49.2	27.5	....	-0.3
% of GDP	*3.0*	*1.7*	*131.7*	
October 2014 (7)	....	....	....	-0.3
% of GDP	*3.0*	*1.7*	*131.6*	
Outcome (8)	**49.1**	**26.1**	**2,134.9**	**-0.4**
% of GDP	*3.0*	*1.6*	*132.1*	

(1) The estimates and objectives given in the official documents include, in a non-homogenous manner, the effects of Italy's share of the financial support given to EMU countries in difficulty and its capital contribution to the ESM. – (2) 2013 Economic and Financial Document. – (3) Data provided in accordance with ESA 1995 accounting rules; economic planning documents published from September 2014 onwards conform with ESA 2010 accounting rules.– (4) Update of the 2013 Economic and Financial Document. – (5) Update of the 2014 Economic and Financial Document. – (6) 2014 Economic and Financial Document. – (7) Italy's 2015 Draft Budgetary Plan. – (8) Net borrowing, primary balance and GDP growth are based on Istat data.

The fiscal ratio is basically unchanged

General government revenue increased by 0.6 per cent or €4.7 billion in 2014 (Table 10). The 0.9 per cent rise in current revenue (0.9 per cent) more than offset the 21.3 per cent fall in capital revenue, which was due above all to the drop in proceeds of the substitute tax on the alignment of fiscal and book values. Indirect tax revenue rose by 3.5 per cent as a result of increased VAT proceeds and the introduction of the tax on shared municipal services (TASI). Direct tax revenue declined by 1.4 per cent, as the sharp fall in corporate income tax proceeds (also in connection with the large size of the payment on account due at the end of 2013) was only partly offset by the one-off tax on the revaluation of shares in the Bank of Italy and the increase in proceeds from the substitute tax on income from financial assets. The ratio of tax and social security contribution payments to GDP was 43.5 per cent, essentially unchanged since 2012.

Table 10

General government expenditure and revenue

(billions of euros and percentage changes)

	2013	2014	% change on previous year 2013	% change on previous year 2014
EXPENDITURE				
Final consumption expenditure	315.7	314.5	-0.0	-0.4
of which:				
compensation of employees	*164.9*	*163.9*	*-0.7*	*-0.6*
intermediate consumption	*89.8*	*90.3*	*3.3*	*0.5*
social benefits in kind	*43.5*	*43.7*	*0.3*	*0.6*
Social benefits in cash	319.7	328.3	2.6	2.7
Interest payments	77.9	75.2	-7.3	-3.5
Other current expenditure	66.1	66.1	4.1	-0.1
Current expenditure	**762.0**	**767.5**	**0.9**	**0.7**
% of GDP	*47.3*	*47.5*		
Current expenditure net of interest payments	**684.0**	**692.3**	**1.9**	**1.2**
% of GDP	*42.5*	*42.8*		
Investment (1)	38.3	36.0	-7.2	-6.0
Investment grants	14.5	12.9	-16.7	-10.4
Other capital expenditure	5.2	9.8	-11.7	88.6
Capital expenditure	**58.0**	**58.7**	**-10.2**	**1.4**
Total expenditure net of interest payments	**742.0**	**751.1**	**0.8**	**1.2**
% of GDP	*46.1*	*46.5*		
TOTAL EXPENDITURE	**819.9**	**826.3**	**-0.0**	**0.8**
% of GDP	*50.9*	*51.1*		
REVENUE				
Direct taxes	240.9	237.5	0.5	-1.4
Indirect taxes	238.6	247.0	-3.0	3.5
Social security contributions	215.3	216.4	-0.3	0.5
Production for market and for own use	36.4	36.9	7.7	1.5
Other current revenue	32.0	32.1	5.5	0.2
Current revenue	**763.2**	**769.9**	**-0.3**	**0.9**
% of GDP	*47.4*	*47.6*		
Capital revenue	**9.3**	**7.3**	**56.4**	**-21.3**
of which:				
capital taxes	*4.2*	*1.3*	*172.6*	*-68.5*
TOTAL REVENUE	**772.5**	**777.2**	**0.1**	**0.6**
% of GDP	*48.0*	*48.1*		
of which:				
taxes and social security contributions	*43.4*	*43.5*		
NET BORROWING	**47.5**	**49.1**		
% of GDP	*2.9*	*3.0*		
Primary balance	**30.5**	**26.1**		
% of GDP	*1.9*	*1.6*		
Memorandum item:				
GDP	1,609.5	1,616.0		0.4

Source: Based on Istat data.
(1) Includes proceeds of property sales entered with a negative sign.

The increase in expenditure, due above all to he tax credit for lower-middle-income employees, is limited

General government expenditure increased by 0.8 per cent in 2014. The rise in primary current spending (1.2 per cent) was due above all to the expansion of social benefits in cash (2.7 per cent) stemming from a modest rise in pension outlays and a substantial increase in other social benefits. The latter reflected the tax credit for lower-middle income employees introduced in May 2014, which under ESA 2010 accounting standards was entered as an increase in expenditure. The fall in employee compensation continued, with a decrease of 0.6 per cent (and 5.0 per cent since 2010), owing both to staff downsizing and the continued freeze on collective bargaining. Interest payments decreased by 3.5 per cent, as market confidence strengthened. Despite the 6.0 per cent reduction in gross fixed investment, capital expenditure rose by 1.4 per cent as a result of an increase in deferred tax assets (included as 'other capital expenditure').

The borrowing requirement is lower than in 2013

The general government borrowing requirement, net of privatization receipts, came down from €78.9 billion in 2013 to €69.0 billion in 2014 (Table 11 and Figure 34). The reduction reflects, among other factors, the contraction in Italy's financial support to EMU countries (€4.7 billion, compared with €13.0 billion in 2013) and the payment of overdue commercial debts and tax refunds (estimated at €15 billion in 2014 and €21.6 billion in 2013).[1]

The public debt ratio rises

The ratio of the public debt to GDP rose from 128.5 to 132.1 per cent, owing in part to the stagnation of nominal GDP (Table 11 and Figure 35). The increase in liabilities was marginally greater than the overall general government borrowing requirement (Table 12). Issue discounts and premiums reduced the debt by €8.7 billion,[2]

Table 11

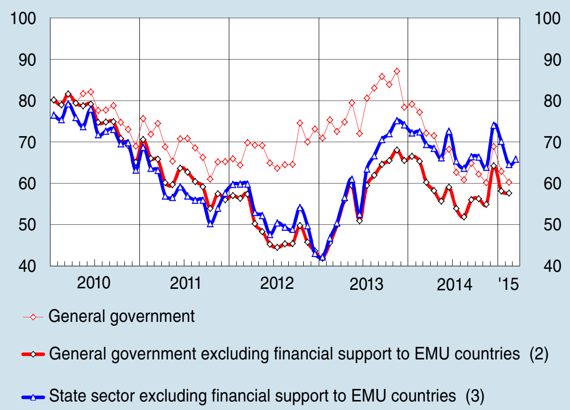
General government financial balances and debt
(billions of euros and per cent of GDP)

	2011	2012	2013	2014
Borrowing requirement	63.8	65.9	77.0	65.7
% of GDP	*3.9*	*4.1*	*4.8*	*4.1*
Net borrowing requirement (1)	65.4	73.8	78.9	69.0
% of GDP	*4.0*	*4.6*	*4.9*	*4.3*
Debt	1,907.5	1,988.9	2,068.7	2,134.9
% of GDP	*116.4*	*123.1*	*128.5*	*132.1*
Memorandum items:				
Privatization receipts	1.5	7.9	1.9	3.3
% of GDP	*0.1*	*0.5*	*0.1*	*0.2*

(1) Net of privatization receipts.

Figure 34

Rolling 12-month borrowing requirement (1)
(monthly data; billions of euros)



Source: For the state sector, Ministry of Economy and Finance.
(1) Excluding privatization receipts. – (2) Excluding liabilities in respect of loans to other EMU countries, disbursed both bilaterally and via the EFSF, and Italy's capital contribution to the ESM. – (3) Excluding liabilities in connection with bilateral loans to EMU member countries and Italy's capital contribution to the ESM; loans disbursed through the EFSF do not count towards the state sector borrowing requirement.

[1] In these estimates, based on both the monitoring by the Ministry of Economy and Finance updated as of January 2015 and the 2015 Economic and Financial Document, the extent of payments made in January was assumed modest.
[2] Except for Treasury bills, securities are valued at net proceeds for purposes of the borrowing requirement but at face value for calculating the debt. Because the average new issue price in 2014 was above par, for constant borrowing requirement there was a smaller increase in the debt.

Figure 35

Government debt: trend and determinants of the changes
(annual data; per cent of GDP)

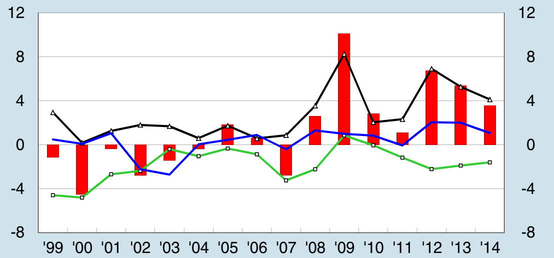


Table 12

Changes in general government debt and its components
(millions of euros)

	2011	2012	2013	2014
Change in the debt = (a)+(b)+(c)+(d)	**56.3**	**81.4**	**79.8**	**66.2**
(a) Total borrowing requirement	63.8	65.9	77.0	65.8
of which: support to EMU countries	*9.2*	*29.5*	*13.0*	*4.7*
(b) Change in the Treasury's liquid balance	-19.0	10.1	3.2	8.8
(c) Issue discounts and premiums (1)	11.3	5.8	-0.5	-8.7
(d) Euro equivalent of foreign currency liabilities	0.1	-0.4	0.1	0.5

(1) Includes principal revaluation of inflation-index securities.

largely offsetting the increase in connection with the expansion of €8.8 billion in the Treasury's liquid balance (to €46.4 billion) and with exchange rate variations (€0.5 billion).

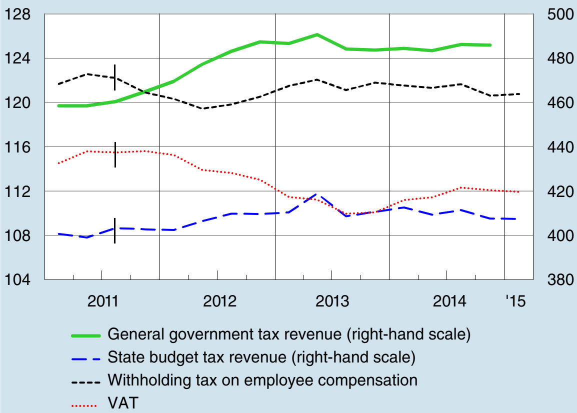
The state sector borrowing requirement diminishes in the first quarter

The state sector borrowing requirement amounted to €23.5 billion in the first quarter of 2015, about €8.8 billion less than a year earlier. About half of the reduction reflects extraordinary factors, such as the payment of overdue general government debts and the bringing forward of the deadline for INAIL insurance premiums to February (in 2014 it had been postponed to May). The contraction in interest payments also played a role.

In the first quarter State budget tax receipts, net of lotto and lotteries, were broadly the same as a year earlier (Figure 36); allowing for a change in accounting practices as regards the excise tax on mineral oils, revenue would show an increase. Direct tax revenue increased by 3.5 per cent or €1.7 billion, owing above all to the increase in the proceeds of the substitute tax on income from financial assets, which rose by 39.4 per cent or €1.3 billion. Indirect tax proceeds declined by 4.3 per cent or €1.6 billion, as a result of the above-mentioned accounting change.

Figure 36

Tax revenue: rolling four-quarter totals (1)
(billions of euros)



Sources: for general government tax revenue, Istat; for the other variables, *Rendiconto generale dell'amministrazione dello Stato* and state budget.
(1) From September 2011 the state budget figures do not include the revenue pertaining to the Trentino-Alto Adige region or the autonomous provinces of Trento and Bolzano.

The European Commission recommends not opening an excessive deficit procedure

On the basis of its assessment published on 27 February, the European Commission has recommended not opening an excessive deficit procedure against Italy for violation of the debt rule. The Commission took account of the so-called relevant factors, namely the particularly adverse macroeconomic situation (including the low level of inflation), the contribution of one-off components to the increase in the debt (namely financial support to euro-area countries and the payment of overdue commercial debts), and the plans for structural reforms that the Government has pledged to carry out. The assessment also considered that Italy is in compliance with the preventive arm of the Stability and Growth Pact: the Commission's latest estimates indicate that the structural balance (cyclically adjusted and net of one-off measures) will improve by 0.3 percentage points of GDP in 2015, while the Pact requires an adjustment of 0.25 points in the light of current macroeconomic conditions, as the Commission has recently made clear (see the box 'European budget rules and the objectives for Italy's public finances', *Economic Bulletin*, No. 1, 2015). In a statement on 9 March, the Eurogroup also acknowledged Italy's compliance with the rules.

The Government plans net borrowing of 2.6 per cent of GDP in 2015 and 1.8 per cent in 2016

The 2015 Economic and Financial Document approved by the Government on 10 April retains the nominal budget objectives set last autumn, notwithstanding the improvement in the public finance projections. For this year, while net borrowing is now estimated at 2.5 per cent of GDP on a current legislation basis, the target of 2.6 per cent is maintained (Table 13). The planning scenario lowers net borrowing to 1.8 per cent in 2016 (against 1.4 per cent on a current legislation basis) and 0.8 per cent in 2017, while projecting a balanced budget for 2018.

A reduction in structural net borrowing of 0.2 per cent of GDP is planned for 2015 (to 0.5 per cent), slightly less than the 0.3 point reduction set last autumn. The planned structural adjustment for 2016 is 0.1 per cent: the Government intends to make use of the flexibility allowed under the European budget rules in the presence of structural reforms in order to deviate from the adjustment that, given the cyclical context, the preventive arm of the Stability and Growth Pact would require of Italy (equal to at least half a point of GDP). The projection for 2017 is structural budget balance, which is Italy's medium-term objective.

The Economic and Financial Document provides some initial indications on the measures for 2016. The plans would avert the activation of the safeguard clauses of the last two Stability Laws, which would entail a tax increase of €16 billion in 2016, stemming largely from an increase in VAT rates. More than half the requisite resources are to come from the spending review scheduled for the next few months. Additional resources are expected from a reduction in interest expenditure by comparison with last autumn's forecast and an increase in revenue in connection with the improving macroeconomic situation.

Table 13

Outcomes and official objectives for the main general government aggregates (1)
(millions of euros and percentages of GDP)

	2014	2015	2016	2017
Net borrowing	49.1	....	....	....
% of GDP (2)	*3.0*	*2.6*	*1.8*	*0.8*
Primary surplus	26.1	....	....	....
% of GDP	*1.6*	*1.6*	*2.4*	*3.2*
Interest payments	75.2	....	....	....
% of GDP	*4.7*	*4.2*	*4.2*	*4.0*
Structural net borrowing	....	....	....	....
% of GDP	*0.7*	*0.5*	*0.4*	*0.0*
Debt	2,135	2,172	2,201	2,212
% of GDP	*132.1*	*132.5*	*130.9*	*127.4*
Debt net of support provided to EMU countries (2)	2,075	2,112	2,141	2,152
% of GDP	*128.4*	*128.9*	*127.3*	*123.9*

Sources: Istat for the items of the general government consolidated accounts for the year 2014; 2015 Economic and Financial Document for the years 2015-17.
(1) Rounding may cause discrepancies in totals. – (2) Excluding liabilities in respect of loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and Italy's capital contribution to the European Stability Mechanism.

The debt ratio should come down in 2016

According to the 2015 Economic and Financial Document, the ratio of debt to GDP will increase marginally this year to 132.5 per cent and begin to fall in 2016, reaching 120.0 per cent in 2019. The reduction will come thanks to an increase in the primary surplus (to 4.0 per cent of GDP in 2019), the growth of nominal GDP and expected privatization receipts, although the latter will be less than planned last autumn. In the Government's estimates, Italy will be in compliance with the debt rule over the three-year period 2016-18.

SELECTED STATISTICS

Additional tables are contained in the Statistical Appendix of the *Economic Bulletin* available on the Internet at www.bancaditalia.it/pubblicazioni

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Table A1

Sources and uses of income: United States (1)

(seasonally adjusted data; percentage changes on the previous period and contribution to growth, on an annual basis)

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2011	1.6	2.3	1.6	-3.0	-0.7	6.3	0.9	1.6	1.6	6.9	5.5	..	-0.1
2012	2.3	1.8	1.3	-1.4	-0.3	8.3	1.2	2.2	2.3	3.3	2.3	..	0.2
2013	2.2	2.4	1.6	-2.0	-0.4	4.7	0.7	1.9	2.0	3.0	1.1	0.2	0.1
2014	2.4	2.5	1.7	-0.2	..	5.3	0.8	2.5	2.6	3.1	4.0	-0.2	0.1
2012 – Q1	2.3	2.8	1.9	-2.7	-0.6	9.1	1.2	2.3	2.4	1.3	1.7	-0.1	-0.2
Q2	1.6	1.3	0.9	-0.4	-0.1	4.4	0.6	1.6	1.6	4.8	4.0	..	0.3
Q3	2.5	1.9	1.3	2.7	0.5	3.1	0.5	2.0	2.1	2.1	-0.6	0.4	-0.2
Q4	0.1	1.9	1.3	-6.0	-1.2	6.6	1.0	-0.7	-0.7	1.5	-3.5	0.8	-1.8
2013 – Q1	2.7	3.6	2.5	-3.9	-0.8	2.7	0.4	2.7	2.8	-0.8	-0.3	-0.1	0.7
Q2	1.8	1.8	1.2	0.2	..	4.9	0.7	2.2	2.3	6.3	8.5	-0.5	0.3
Q3	4.5	2.0	1.4	0.2	..	6.6	1.0	3.8	3.9	5.1	0.6	0.6	1.5
Q4	3.5	3.7	2.5	-3.8	-0.7	6.3	1.0	2.3	2.4	10.0	1.3	1.1	-0.3
2014 – Q1	-2.1	1.2	0.8	-0.8	-0.2	0.2	..	-0.4	-0.4	-9.2	2.2	-1.7	-1.2
Q2	4.6	2.5	1.8	1.7	0.3	9.5	1.5	4.8	4.9	11.1	11.3	-0.3	1.4
Q3	5.0	3.2	2.2	4.4	0.8	7.7	1.2	4.1	4.2	4.5	-0.9	0.8	..
Q4	2.2	4.4	3.0	-1.8	-0.4	4.5	0.7	3.2	3.4	4.5	10.4	-1.0	-0.1

Source: National statistics.
(1) Chain-linked volumes. Public sector investment is included in government expenditure. – (2) Includes change in stocks.

Table A2

Sources and uses of income: Japan (1)

(seasonally adjusted data; percentage changes on the previous period and contribution to growth, on an annual basis)

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2011	-0.5	0.3	0.2	1.2	0.2	1.4	0.3	0.4	0.4	-0.4	5.9	-0.9	-0.3
2012	1.8	2.3	1.4	1.7	0.3	3.4	0.7	2.6	2.5	-0.2	5.3	-0.9	0.2
2013	1.6	2.1	1.3	1.9	0.4	3.2	0.7	1.9	1.8	1.5	3.1	-0.3	-0.4
2014	..	-1.2	-0.7	0.3	0.1	2.6	0.6	..	..	8.2	7.2	..	0.1
2012 – Q1	4.3	2.4	1.5	4.7	0.9	-2.0	-0.4	4.0	4.0	12.0	8.9	0.3	2.0
Q2	-1.4	2.7	1.6	-1.6	-0.3	2.6	0.5	..	..	-1.7	7.4	-1.4	-1.8
Q3	-2.2	-1.3	-0.8	1.8	0.4	-4.1	-0.9	-0.3	-0.3	-14.8	-2.9	-1.9	1.1
Q4	-0.6	0.2	0.1	2.7	0.6	-0.8	-0.2	-0.3	-0.3	-12.9	-9.2	-0.4	-0.7
2013 – Q1	5.6	5.2	3.2	3.3	0.7	1.8	0.4	3.8	3.9	18.4	5.5	1.6	-0.3
Q2	3.3	3.3	2.0	2.5	0.5	9.9	2.0	3.0	3.0	12.8	9.7	0.2	-1.4
Q3	1.4	1.3	0.8	-0.3	-0.1	9.3	1.9	2.9	2.9	-2.0	7.2	-1.5	0.3
Q4	-1.2	-0.7	-0.4	0.3	0.1	5.4	1.1	1.0	1.0	-0.7	12.5	-2.1	0.2
2014 – Q1	5.1	9.0	5.4	-1.2	-0.3	15.1	3.2	6.2	6.3	28.8	30.3	-1.2	-2.1
Q2	-6.4	-18.7	-12.4	1.5	0.3	-16.8	-4.1	-9.9	-10.7	-1.3	-19.7	4.2	5.5
Q3	-2.6	1.1	0.7	0.9	0.2	-2.4	-0.5	-2.7	-2.8	6.2	4.2	0.2	-3.1
Q4	1.5	2.0	1.2	1.2	0.2	-0.1	..	0.6	0.6	11.5	5.3	0.9	-0.8

Source: National statistics.
(1) Chain-linked volumes. Statistical discrepancies may cause differences between the sum of contributions and GDP growth. – (2) Includes change in stocks.

Table A3

Sources and uses of income: euro area (1)
(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2010	2.0	9.7	4.0	-3.5	3.4	-0.4	0.8	0.8	11.0
2011	1.6	4.3	2.4	0.1	3.3	1.6	0.2	-0.2	6.6
2012	-0.8	-1.1	-0.9	-4.3	-2.9	-3.7	-1.3	-0.1	2.5
2013	-0.5	1.2	..	-3.5	-1.3	-2.5	-0.7	0.3	2.0
2014	0.9	3.8	1.7	-0.3	2.3	1.0	1.0	0.7	3.7
2012 – Q4	-0.4	-0.7	-0.5	-1.0	0.2	-0.4	-0.5	..	-0.9
2013 – Q1	-0.4	0.1	-0.2	-2.5	-1.9	-2.2	-0.2	0.2	0.4
Q2	0.3	1.3	0.6	0.2	1.1	0.7	0.1	0.1	1.7
Q3	0.2	1.5	0.5	0.8	0.4	0.6	0.2	0.2	0.6
Q4	0.3	0.2	0.3	-0.3	1.3	0.5	0.1	..	0.8
2014 – Q1	0.3	0.6	0.4	0.8	0.1	0.4	0.2	0.2	0.4
Q2	0.1	1.3	0.4	-1.6	0.5	-0.5	0.2	0.2	1.3
Q3	0.2	1.7	0.6	-0.6	0.6	..	0.5	0.2	1.5
Q4	0.3	0.4	0.3	0.8	..	0.4	0.4	0.2	0.8
				Implicit prices					
2009	1.0	-6.4	....	....	....	-0.3	-0.7	2.0	-3.2
2010	0.7	5.1	....	....	....	0.9	1.6	0.6	3.1
2011	1.1	5.9	....	....	....	1.5	2.3	0.8	3.6
2012	1.3	2.5	....	....	....	1.4	1.9	0.8	1.9
2013	1.3	-1.3	....	....	....	0.4	1.1	1.3	-0.3
2012 – Q4	0.4	-0.2	....	....	....	0.3	0.6	-0.4	0.1
2013 – Q1	0.3	-0.5	....	....	....	..	0.2	1.1	-0.4
Q2	0.3	-0.8	....	....	....	-0.2	0.1	0.2	-0.2
Q3	0.1	-0.3	....	....	....	0.2	0.2	0.2	-0.2
Q4	0.3	-0.4	....	....	....	0.1	0.2	..	-0.1
2014 – Q1	0.3	-0.5	....	....	....	0.1	0.1	0.4	-0.4
Q2	0.2	-0.4	....	....	....	..	0.1	..	..
Q3	0.3	-0.2	....	....	....	0.3	..	0.6	0.1
Q4	0.2	-0.8	....	....	....	0.3	..	-0.2	-0.2

Source: Eurostat.
(1) Quarterly data are seasonally and calendar adjusted. – (2) Includes expenditure of non-profit institutions serving households.

Sources and uses of income: Italy (1)
(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2010	1.7	12.4	3.7	-3.6	3.1	-0.5	1.2	0.6	11.8
2011	0.6	0.5	0.6	-3.7	..	-1.9	..	-1.8	5.2
2012	-2.8	-8.1	-4.0	-9.3	-9.2	-9.3	-3.9	-1.2	2.3
2013	-1.7	-2.3	-1.8	-7.2	-4.4	-5.8	-2.8	-0.3	0.5
2014	-0.4	1.8	..	-4.9	-1.6	-3.3	0.3	-0.9	2.7
2012 – Q4	-0.6	-2.7	-1.0	-0.9	-1.6	-1.3	-0.8	-0.9	-1.6
2013 – Q1	-0.8	0.3	-0.6	-3.9	-2.1	-3.1	-1.3	0.7	0.2
Q2	-0.1	-1.3	-0.3	-0.2	0.5	0.1	-0.6	0.3	0.1
Q3	0.1	2.2	0.5	-0.2	..	-0.1	0.1	-1.0	1.3
Q4	..	-0.4	-0.1	-2.3	0.2	-1.1	0.1	..	-0.4
2014 – Q1	-0.1	-0.1	-0.1	-1.5	-1.5	-1.5	0.1	-0.4	0.4
Q2	-0.2	1.1	0.1	-1.2	-0.2	-0.7	0.2	-0.5	1.3
Q3	-0.1	0.7	..	-0.9	-1.0	-1.0	0.2	0.2	0.4
Q4	..	0.3	..	-0.6	1.0	0.2	0.1	0.4	1.6
				Implicit prices					
2010	0.3	6.6	1.6	2.5	2.2	2.4	1.4	0.4	2.3
2011	1.5	6.8	2.6	4.2	0.8	2.6	2.9	-0.2	4.0
2012	1.4	3.5	1.8	1.2	1.6	1.4	2.7	-0.3	1.9
2013	1.4	-1.9	0.7	0.8	0.2	0.5	1.1	0.2	0.1
2014	0.8	-2.5	0.1	-0.1	0.3	0.1	0.2	0.6	-0.3
2012 – Q4	0.2	-0.5	0.1	0.5	0.1	0.3	0.4	-0.6	-0.1
2013 – Q1	0.5	-0.8	0.2	0.2	-0.6	-0.2	0.3	0.7	..
Q2	0.4	-0.9	0.1	..	-0.1	-0.1	0.2	-0.5	-0.2
Q3	0.4	-0.4	0.2	0.4	-0.2	0.1	0.3	0.4	0.1
Q4	0.3	-0.9	0.1	0.4	-1.4	-0.5	-0.1	0.3	-0.1
2014 – Q1	0.2	-0.7	..	-0.7	1.1	0.2	0.1	0.4	-0.2
Q2	-0.2	-0.4	-0.2	-0.3	-0.2	-0.3	..	-0.7	-0.2
Q3	0.2	-0.5	0.1	0.5	0.8	0.7	-0.1	0.6	0.3
Q4	0.3	-0.7	0.1	0.3	0.7	0.5	0.1	0.3	-0.1

Source: Istat.
(1) Quarterly data are seasonally and calendar adjusted. – (2) Includes consumption of non-profit institutions serving households.

Table A5

Unit labour costs, per capita compensation and productivity: euro area (1)

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2010	1.8	9.2	8.1	-1.0	-6.8
2011	1.9	2.2	3.0	0.7	-0.3
2012	3.8	1.9	-0.5	-2.4	1.8
2013	2.7	1.2	-0.5	-1.7	1.5
2014	1.5	0.3	0.8	0.5	1.2
2012 – Q1	2.5	0.7	0.0	-0.8	1.7
Q2	4.4	2.7	-0.1	-2.7	1.7
Q3	4.3	2.9	-0.3	-3.0	1.4
Q4	4.0	2.2	-0.9	-3.0	1.8
2013 – Q1	4.8	2.2	-1.6	-3.7	2.5
Q2	1.7	0.2	-0.8	-1.0	1.5
Q3	2.3	0.0	-1.0	-0.9	2.3
Q4	1.7	1.8	1.2	-0.6	-0.1
2014 – Q1	1.0	0.4	1.1	0.7	0.6
Q2	2.0	0.9	0.7	-0.2	1.1
Q3	1.6	0.4	0.8	0.4	1.1
Q4	1.5	-1.0	0.3	1.2	2.5
		Services			
2010	1.6	0.8	1.2	0.3	0.8
2011	1.6	1.0	1.8	0.7	0.5
2012	2.4	0.9	-0.3	-1.1	1.5
2013	1.9	0.3	-0.3	-0.7	1.6
2014	1.2	0.0	0.8	0.9	1.2
2012 – Q1	2.6	0.9	0.1	-0.7	1.8
Q2	2.6	1.1	-0.2	-1.4	1.5
Q3	2.7	0.8	-0.3	-1.1	1.9
Q4	1.9	0.9	-0.4	-1.2	1.0
2013 – Q1	2.3	0.9	-0.6	-1.5	1.4
Q2	1.9	0.5	-0.2	-0.7	1.3
Q3	1.7	0.6	0.1	-0.5	1.2
Q4	2.1	0.5	0.4	-0.1	1.6
2014 – Q1	1.2	0.2	1.1	0.8	1.0
Q2	1.1	0.1	0.9	0.8	1.0
Q3	1.3	0.2	1.0	0.8	1.2
Q4	1.0	-0.2	1.1	1.2	1.2
		Total economy			
2010	1.7	2.5	2.1	-0.4	-0.7
2011	1.8	1.5	1.7	0.3	0.3
2012	2.9	1.2	-0.6	-1.8	1.6
2013	2.1	0.7	-0.5	-1.2	1.4
2014	1.2	0.1	0.8	0.6	1.1
2012 – Q1	2.8	1.1	-0.2	-1.3	1.7
Q2	3.2	1.5	-0.5	-2.0	1.6
Q3	3.2	1.4	-0.6	-1.9	1.8
Q4	2.5	1.3	-0.8	-2.1	1.2
2013 – Q1	2.9	1.4	-1.0	-2.4	1.5
Q2	1.9	0.7	-0.5	-1.2	1.2
Q3	1.9	0.5	-0.2	-0.8	1.3
Q4	2.0	0.9	0.5	-0.4	1.1
2014 – Q1	1.1	0.4	1.1	0.7	0.7
Q2	1.3	0.4	0.8	0.4	0.9
Q3	1.3	0.3	0.8	0.5	1.0
Q4	1.1	-0.3	0.8	1.1	1.4

Source: Based on Eurostat data, ESA 2010 accounts.
(1) Based on hours effectively worked. Annual figures are unadjusted, quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2010.

Table A6

Unit labour costs, per capita compensation and productivity: Italy (1)

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity	of which: Value added (2)	of which: Hours worked	Unit labour costs
			Total industry excluding construction		
2010	3.1	9.0	6.6	-2.2	-5.4
2011	2.6	1.1	1.1	0.0	1.4
2012	2.8	1.7	-2.6	-4.2	1.1
2013	2.1	0.2	-2.8	-3.0	1.9
2014	1.6	-2.0	-1.1	0.9	3.6
2012 – Q1	3.0	0.2	-2.5	-2.6	2.8
Q2	2.1	1.1	-3.3	-4.3	1.0
Q3	3.0	3.2	-1.9	-5.0	-0.3
Q4	2.8	1.6	-3.1	-4.7	1.2
2013 – Q1	1.8	1.0	-3.6	-4.6	0.8
Q2	2.3	0.6	-3.3	-3.9	1.7
Q3	2.0	-1.4	-3.5	-2.1	3.5
Q4	2.2	0.4	-1.0	-1.3	1.8
2014 – Q1	2.0	-1.0	-0.1	0.9	3.0
Q2	1.9	-0.9	-0.5	0.4	2.8
Q3	1.8	-1.6	-1.1	0.6	3.5
Q4	0.9	-3.1	-1.4	1.8	4.2
			Services		
2010	2.0	0.9	1.0	0.2	1.1
2011	0.3	0.2	0.9	0.7	0.1
2012	0.2	-0.9	-2.0	-1.1	1.1
2013	0.2	-0.1	-0.8	-0.6	0.3
2014	0.3	-0.1	0.1	0.3	0.5
2012 – Q1	0.3	-0.5	-1.6	-1.1	0.8
Q2	0.6	-0.8	-2.4	-1.6	1.4
Q3	1.1	-1.4	-2.5	-1.1	2.5
Q4	-0.8	-0.8	-1.7	-0.9	-0.1
2013 – Q1	-0.2	-1.0	-1.5	-0.4	0.9
Q2	-0.2	0.1	-0.8	-0.9	-0.3
Q3	-0.5	0.3	-0.3	-0.6	-0.8
Q4	1.5	0.3	-0.3	-0.6	1.2
2014 – Q1	0.9	0.2	0.3	0.1	0.7
Q2	0.0	-0.6	0.1	0.7	0.6
Q3	0.6	-0.2	0.0	0.2	0.7
Q4	0.0	-0.4	0.2	0.5	0.4
			Total economy		
2010	2.3	2.3	1.8	-0.6	0.0
2011	1.0	0.5	0.6	0.1	0.5
2012	1.1	0.1	-2.4	-2.5	1.0
2013	0.9	0.5	-1.4	-1.8	0.3
2014	0.7	-0.5	-0.3	0.1	1.1
2012 – Q1	1.1	0.2	-2.0	-2.2	0.9
Q2	1.2	-0.1	-2.8	-2.7	1.3
Q3	1.8	0.2	-2.7	-2.9	1.6
Q4	0.4	0.2	-2.3	-2.5	0.2
2013 – Q1	0.6	0.2	-2.1	-2.3	0.5
Q2	0.7	1.0	-1.6	-2.6	-0.3
Q3	0.3	0.2	-1.1	-1.3	0.0
Q4	1.7	0.6	-0.6	-1.2	1.1
2014 – Q1	1.2	0.0	0.0	0.1	1.2
Q2	0.4	-0.6	-0.2	0.4	1.1
Q3	0.8	-0.4	-0.5	-0.1	1.2
Q4	0.3	-1.1	-0.5	0.6	1.3

Source: Based on Istat data. ESA 2010 accounts.
(1) Based on hours effectively worked; annual figures are unadjusted. quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices. volumes at chain-linked prices – reference year 2010.

Harmonized index of consumer prices: main euro-area countries

(indices, 2005=100; percentage changes on the year-earlier period)

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food
2010	1.7	1.0	1.2	0.6	1.6	1.7	2.1	0.8	1.6	1.0
2011	2.3	1.1	2.5	1.2	2.9	2.0	3.1	1.2	2.7	1.4
2012	2.2	1.5	2.1	1.3	3.3	2.0	2.4	1.3	2.5	1.5
2013	1.0	0.7	1.6	1.2	1.3	1.3	1.5	1.3	1.4	1.1
2014	0.6	1.0	0.8	1.1	0.2	0.7	-0.2	-0.1	0.4	0.8
2013 – Jan.	1.4	0.9	1.9	1.1	2.4	1.7	2.8	2.1	2.0	1.3
Feb.	1.2	0.7	1.8	1.2	2.0	1.4	2.9	2.1	1.8	1.3
Mar.	1.1	0.8	1.8	1.8	1.8	1.5	2.6	2.2	1.7	1.5
Apr.	0.8	0.5	1.1	0.6	1.3	1.2	1.5	1.8	1.2	1.0
May	0.9	0.6	1.6	1.1	1.3	1.4	1.8	2.0	1.4	1.2
June	1.0	0.5	1.9	1.2	1.4	1.2	2.2	1.9	1.6	1.2
July	1.2	0.7	1.9	1.2	1.2	1.0	1.9	1.5	1.6	1.1
Aug.	1.0	0.6	1.6	1.2	1.2	1.2	1.6	1.4	1.3	1.1
Sept.	1.0	0.8	1.6	1.3	0.9	1.3	0.5	0.5	1.1	1.0
Oct.	0.7	0.9	1.2	1.0	0.8	1.2	0.0	-0.1	0.7	0.8
Nov.	0.8	1.0	1.6	1.7	0.7	1.1	0.3	0.0	0.9	0.9
Dec.	0.8	0.8	1.2	0.7	0.7	0.9	0.3	-0.1	0.8	0.7
2014 – Jan.	0.8	0.8	1.2	1.2	0.6	0.9	0.3	-0.1	0.8	0.8
Feb.	1.1	1.4	1.0	1.2	0.4	0.9	0.1	0.0	0.7	1.0
Mar.	0.7	1.1	0.9	0.9	0.3	0.9	-0.2	-0.3	0.5	0.7
Apr.	0.8	1.2	1.1	1.4	0.5	1.1	0.3	0.1	0.7	1.0
May	0.8	1.1	0.6	0.7	0.4	0.8	0.2	-0.1	0.5	0.7
June	0.6	0.9	1.0	1.1	0.2	0.7	0.0	-0.1	0.5	0.8
July	0.6	0.9	0.8	1.2	0.0	0.5	-0.4	-0.1	0.4	0.8
Aug.	0.5	1.2	0.8	1.2	-0.2	0.4	-0.5	0.0	0.4	0.9
Sept.	0.4	0.9	0.8	1.2	-0.1	0.5	-0.3	-0.2	0.3	0.8
Oct.	0.5	0.8	0.7	1.1	0.2	0.6	-0.2	-0.2	0.4	0.7
Nov.	0.4	0.7	0.5	0.9	0.3	0.6	-0.5	-0.2	0.3	0.7
Dec.	0.1	0.7	0.1	1.2	-0.1	0.7	-1.1	-0.1	-0.2	0.7
2015 – Jan.	-0.4	0.4	-0.5	0.8	-0.5	0.5	-1.5	0.0	-0.6	0.6
Feb.	-0.3	0.3	-0.1	1.0	0.1	0.9	-1.2	0.0	-0.3	0.7
Mar.	0.0	0.4	0.1	0.9	0.0	0.4	-0.8	0.0	(-0.1)	(0.6)

Source: Based on Eurostat data.
(1) Weighted average of the indices of the countries belonging to the euro area at the date indicated.

Balance of payments (current account and capital account): Italy (1)

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary Income	Secondary Income	Total	Intangible assets	Capital transfers
2011	-50,371	-18,583	-6,157	-6,378	-19,253	1,032	-49	1,081
2012	-6,939	16,829	-130	-4,122	-19,516	3,959	1,835	2,124
2013	14,967	36,103	1,369	-4,448	-18,056	161	-3,142	3,302
2014	31,159	49,513	623	-2,343	-16,634	3,355	-942	4,297
2013 – Q1	-5,101	4,552	-1,943	147	-7,857	-2,401	-2,405	3
Q2	4,630	10,995	1,370	-4,662	-3,074	188	-129	317
Q3	5,595	9,371	2,469	-1,386	-4,859	73	-98	171
Q4	9,843	11,185	-528	1,453	-2,267	2,301	-510	2,811
2014 – Q1	-180	8,341	-2,199	705	-7,027	-587	-515	-72
Q2	6,345	12,252	1,310	-4,269	-2,948	281	-158	439
Q3	10,593	12,784	2,100	-1,162	-3,129	423	43	381
Q4	14,402	16,137	-588	2,383	-3,531	3,238	-311	3,549
2013 – Feb.	-982	1,833	-512	222	-2,525	-593	-600	8
Mar.	-253	3,807	-740	-128	-3,192	-1,249	-1,234	-16
Apr.	969	2,694	81	-765	-1,041	-22	-58	37
May	980	4,392	427	-3,130	-709	-19	-55	36
June	2,680	3,910	862	-767	-1,324	229	-15	244
July	6,039	6,272	1,307	228	-1,768	72	-11	83
Aug.	96	1,802	179	-277	-1,608	46	-29	74
Sept.	-539	1,297	983	-1,337	-1,483	-44	-58	14
Oct.	4,093	4,166	129	348	-550	991	-107	1,098
Nov.	2,884	3,261	-478	738	-637	874	-100	974
Dec.	2,867	3,759	-179	367	-1,080	436	-304	739
2014 – Jan.	-1,365	812	-572	146	-1,750	-118	-108	-10
Feb.	543	3,155	-714	379	-2,278	-134	-115	-19
Mar.	642	4,373	-913	180	-2,999	-335	-292	-43
Apr.	2,869	4,213	3	-281	-1,066	-13	-76	63
May	859	4,176	392	-3,050	-659	-4	-68	64
June	2,617	3,862	915	-937	-1,223	298	-14	312
July	7,644	7,434	1,275	115	-1,179	195	37	157
Aug.	1,634	2,687	105	-76	-1,082	157	12	146
Sept.	1,315	2,663	720	-1,200	-868	71	-6	77
Oct.	5,995	5,884	116	919	-924	1,317	-65	1,382
Nov.	3,179	4,044	-506	601	-960	1,168	-58	1,226
Dec.	5,228	6,210	-198	863	-1,647	753	-188	942
2015 – Jan.	(45)	(1,921)	(-475)	(407)	(-1,807)	(-64)	(-54)	(-10)
Feb.	(3,594)	(5,979)	(-635)	(433)	(-2,184)	(7)	(23)	(-16)

(1) Based on the international standards in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)*.

Table A9

Lending by banks in Italy by geographical area and sector (1)

(twelve-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classifiable and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
				Centre and North					
2012 – Dec.	4.6	4.4	-2.2	-2.0	-2.9	-2.4	0.2	-1.6	0.0
2013 – June	-0.7	-4.2	-4.2	-4.3	-3.8	-2.9	-0.3	-3.1	-2.8
Sept.	-4.6	-8.6	-4.2	-4.5	-3.1	-2.6	-0.6	-3.7	-3.9
Dec.	-2.5	-4.9	-5.4	-5.7	-4.1	-3.1	-0.7	-3.6	-3.8
2014 – Mar.	0.3	-5.5	-4.4	-4.8	-3.0	-2.5	-0.5	-3.2	-3.0
June	2.4	-3.2	-3.1	-3.3	-2.3	-1.9	-0.4	-2.2	-1.7
Sept.	2.2	-3.7	-3.2	-3.3	-2.8	-1.9	-0.2	-1.3	-1.7
Dec.	4.2	-1.5	-2.0	-1.9	-2.5	-1.5	0.0	-1.6	-0.7
2015 – Jan.	3.0	-1.8	-2.5	-2.3	-3.5	-2.1	0.0	-0.6	-1.0
Feb.	2.3	-3.2	-2.8	-2.6	-3.4	-2.0	0.0	-2.1	-1.4
				South and Islands					
2012 – Dec.	-1.7	-4.5	-2.1	-1.8	-2.9	-3.2	-0.4	-0.8	-1.4
2013 – June	-2.8	-0.5	-2.9	-2.7	-3.4	-3.4	-1.1	1.1	-2.1
Sept.	-2.6	0.3	-3.2	-3.2	-3.2	-3.0	-1.5	-1.4	-2.4
Dec.	-5.4	-3.0	-3.0	-2.9	-3.3	-2.8	-1.5	-3.0	-2.6
2014 – Mar.	-5.0	-1.4	-2.6	-2.6	-2.6	-2.4	-1.3	-5.0	-2.3
June	-5.1	-4.2	-2.2	-2.2	-2.2	-2.1	-1.0	-4.0	-2.0
Sept.	-4.3	36.1	-2.0	-1.8	-2.4	-2.0	-0.7	-3.5	-1.3
Dec.	-4.1	38.0	-1.7	-1.6	-2.1	-1.2	-0.6	-1.7	-1.0
2015 – Jan.	-7.1	38.5	-1.9	-1.7	-2.6	-1.7	-0.6	-0.2	-1.4
Feb.	-7.4	34.8	-1.9	-1.7	-2.6	-1.6	-0.5	7.0	-1.4
				ITALY					
2012 – Dec.	4.0	4.2	-2.2	-2.0	-2.9	-2.6	0.0	-1.5	-0.2
2013 – June	-0.9	-4.1	-4.0	-4.1	-3.7	-3.0	-0.5	-2.7	-2.7
Sept.	-4.4	-8.4	-4.1	-4.3	-3.1	-2.7	-0.8	-3.5	-3.7
Dec.	-2.8	-4.9	-5.1	-5.3	-3.9	-3.0	-0.9	-3.5	-3.6
2014 – Mar.	-0.2	-5.5	-4.2	-4.5	-2.9	-2.5	-0.7	-3.4	-2.9
June	1.6	-3.2	-3.0	-3.2	-2.2	-1.9	-0.5	-2.4	-1.7
Sept.	1.6	-2.9	-3.0	-3.1	-2.7	-1.9	-0.3	-1.5	-1.7
Dec.	3.4	-0.7	-2.0	-1.9	-2.4	-1.5	-0.2	-1.6	-0.7
2015 – Jan.	2.0	-1.0	-2.4	-2.2	-3.3	-2.0	-0.2	-0.6	-1.1
Feb.	1.4	-2.4	-2.6	-2.5	-3.2	-1.9	-0.1	-1.1	-1.4

Source: Supervisory Report.
(1) Statistics for February 2015 are provisional. Loans include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations, reclassifications and other changes not due to transactions. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with fewer than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Financing of the general government borrowing requirement: Italy (1)

(billions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)		Borrowing requirement	
		of which: PO funds							*of which:* investments of liquidity		*of which:* in connection with financial support to EMU countries (3)
2012	7.0	-1.3	20.4	24.1	0.9	23.7	76.0	-10.1	0.0	65.9	29.5
2013	-1.8	-2.2	-11.0	91.3	-3.0	4.8	80.3	-3.2	-10.0	77.0	13.0
2014	14.7	-1.1	-16.0	81.9	-4.9	-1.2	74.4	-8.8	-28.0	65.7	4.7
2012 – Mar.	8.0	-1.2	31.4	0.4	-0.2	7.4	47.0	-10.2	-5.6	36.8	8.0
June	-3.9	0.5	-1.5	17.8	1.9	8.5	22.8	-11.7	-2.4	11.1	8.6
Sept.	4.8	-1.2	5.1	4.2	-0.3	0.2	14.0	0.2	-22.7	14.2	0.5
Dec.	-1.9	0.7	-14.6	1.8	-0.6	7.6	-7.8	11.5	30.7	3.7	12.5
2013 – Mar.	0.3	-1.4	5.0	42.6	-0.6	0.4	47.6	-11.5	-10.7	36.2	1.1
June	-5.1	-0.7	6.6	32.9	0.6	4.2	39.2	-30.4	-8.6	8.8	7.1
Sept.	0.2	0.2	0.6	-4.5	-2.0	-1.2	-7.0	35.5	7.3	28.4	0.7
Dec.	2.8	-0.3	-23.1	20.3	-1.0	1.5	0.5	3.1	2.1	3.6	4.1
2014 – Mar.	6.2	-0.5	3.5	46.2	-0.5	-1.3	54.2	-24.3	-6.5	29.9	0.0
June	2.4	-0.3	-1.6	50.5	-3.3	1.8	49.8	-43.3	-27.0	6.4	4.3
Sept.	-3.7	0.3	-4.9	-20.8	-0.2	-2.4	-32.1	53.7	-1.6	21.6	0.4
Dec.	9.8	-0.6	-13.0	6.0	-0.9	0.6	2.6	5.2	7.1	7.8	0.0
2014 – Jan.	4.2	-0.6	6.7	10.2	0.8	-0.3	21.6	-20.2	-4.4	1.3	0.0
Feb.	-1.3	-0.1	-2.8	23.4	-1.2	-0.5	17.6	-6.8	0.6	10.8	0.0
Mar.	3.3	0.3	-0.4	12.6	-0.1	-0.4	15.0	2.8	-2.7	17.7	0.0
Apr.	-1.8	-0.1	-1.5	28.7	0.0	1.6	27.0	-15.5	2.5	11.5	4.3
May	1.1	-0.2	0.3	19.3	-0.1	-0.3	20.3	-14.9	-2.8	5.5	0.0
June	3.1	0.0	-0.4	2.5	-3.3	0.5	2.5	-13.0	-26.7	-10.5	0.0
July	-2.7	0.3	-1.6	7.4	0.1	-2.5	0.6	-4.5	-3.3	-3.8	0.2
Aug.	-0.9	0.5	-2.1	-16.7	-0.4	-0.1	-20.2	27.3	-1.6	7.1	0.2
Sept.	-0.1	-0.4	-1.2	-11.4	0.1	0.2	-12.5	30.9	3.3	18.4	0.0
Oct.	-1.5	-0.8	-3.0	30.8	-0.7	-0.3	25.3	-17.8	-1.1	7.5	0.0
Nov.	3.1	-0.6	-1.7	0.2	0.2	0.2	2.1	3.2	-9.7	5.2	0.0
Dec.	8.1	0.7	-8.2	-25.0	-0.4	0.7	-24.7	19.8	17.9	-4.9	0.0
2015 – Jan.	1.3	-0.4	7.3	24.7	-1.1	-0.5	31.7	-36.3	-18.1	-4.6	0.0
Feb.	-3.3	-0.8	-0.1	5.9	4.4	-2.4	4.5	3.6	-10.9	8.2	-2.1

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" *Supplement to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.

Table A11

General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	*of which:* in onnection with EFSF loans	General government debt	*Memorandum item:* Treasury's liquid balances (2)	*of which:* investments of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
2013	158.4	18.6	140.6	1,593.2	130.6	45.9	34.1	2,068.7	37.6	10.0	24.7	55.6
2014	173.1	17.5	124.5	1,666.8	125.7	44.8	36.0	2,134.9	46.4	38.0	25.7	60.3
2012 – Mar.	161.3	20.8	162.6	1,473.8	132.6	24.8	11.1	1,955.1	34.5	5.6	33.6	21.1
June	157.3	21.3	161.1	1,496.4	134.5	33.3	19.7	1,982.7	46.1	7.9	26.5	29.7
Sept.	162.1	20.1	166.2	1,500.1	134.2	33.6	20.2	1,996.2	45.9	30.7	25.4	30.2
Dec.	160.2	20.8	151.6	1,502.4	133.7	41.1	26.9	1,988.9	34.4	0.0	27.2	42.7
2013 – Mar.	160.5	19.4	156.5	1,543.7	133.0	41.5	28.0	2,035.3	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,578.1	133.6	45.7	32.2	2,075.9	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,572.6	131.6	44.5	32.9	2,067.9	40.8	12.1	26.3	51.5
Dec.	158.4	18.6	140.6	1,593.2	130.6	45.9	34.1	2,068.7	37.6	10.0	24.7	55.6
2014 – Mar.	164.6	18.1	144.1	1,635.9	130.1	44.7	34.2	2,119.5	61.9	16.5	25.1	55.6
June	167.0	17.8	142.5	1,684.9	126.8	46.5	35.6	2,167.7	105.3	43.5	25.8	59.9
Sept.	163.3	18.2	137.5	1,661.8	126.6	44.1	36.0	2,133.3	51.6	45.1	24.9	60.3
Dec.	173.1	17.5	124.5	1,666.8	125.7	44.8	36.0	2,134.9	46.4	38.0	25.7	60.3
2014 – Jan.	162.6	18.0	147.3	1,602.1	131.4	45.6	34.1	2,089.0	57.9	14.4	23.7	55.6
Feb.	161.3	17.9	144.5	1,625.4	130.2	45.1	34.1	2,106.6	64.7	13.8	22.8	55.6
Mar.	164.6	18.1	144.1	1,635.9	130.1	44.7	34.2	2,119.5	61.9	16.5	25.1	55.6
Apr.	162.8	18.0	142.6	1,664.3	130.1	46.3	35.6	2,146.0	77.4	14.0	26.8	59.9
May	163.9	17.8	142.9	1,683.1	130.1	46.0	35.6	2,166.0	92.3	16.8	24.9	59.9
June	167.0	17.8	142.5	1,684.9	126.8	46.5	35.6	2,167.7	105.3	43.5	25.8	59.9
July	164.3	18.1	140.8	1,691.7	126.9	44.0	35.8	2,167.7	109.7	46.8	26.2	60.1
Aug.	163.4	18.6	138.7	1,674.9	126.4	44.0	36.0	2,147.4	82.4	48.4	24.4	60.3
Sept.	163.3	18.2	137.5	1,661.8	126.6	44.1	36.0	2,133.3	51.6	45.1	24.9	60.3
Oct.	161.8	17.4	134.5	1,691.7	125.9	43.8	36.0	2,157.7	69.4	46.2	24.1	60.3
Nov.	165.0	16.8	132.7	1,692.2	126.1	44.0	36.0	2,160.1	66.2	55.9	23.2	60.3
Dec.	173.1	17.5	124.5	1,666.8	125.7	44.8	36.0	2,134.9	46.4	38.0	25.7	60.3
2015 – Jan.	174.4	17.2	131.9	1,690.8	124.5	44.2	36.0	2,165.9	82.6	56.1	21.0	60.3
Feb.	171.1	16.4	131.7	1,695.6	128.9	41.8	33.9	2,169.2	79.1	67.0	20.2	58.2

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt", Supplement to the Statistical Bulletin. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.